SMI

The Trend Letter

Thursday, September 15, 1983

MARKET TRENDS

The long term trend of the market is still neutral. The intermediate trend remains pointed in a downward direction. Both trends have been experiencing action lately that suggests they are or are about to undergo modification. Three weeks ago, the Wyckoff Wave penetrated the bottom of the longer term trading range. This put it in spring position suggesting the start of an effort to break out on the upside. The past two weeks have brought an initial positive response to the spring. Last week's action indicates a meeting of supply and an end to that response. Also notice the lack of volume on the response and the continued worsening of the divergence between the Wyckoff Wave and O.P. Index. These factors indicate that there is absolutely going to be a test of the spring.

The big question now is will the test be successful? Any answer to this question at this point is just a guess. If the test is going to be a buying opportunity for the longer term investor, the action of the next few weeks will provide the evidence. At this point, the evidence that is in tends to discount the possibility of a successful test. If a spring is going to lead to something important on the upside, the initial positive response to it almost invariably indicates an increase in interest. In this case the lack of an increase in volume provides no indication of an increase of interest in the upside. This is a potential problem. The rally from the spring position stopped very near the halfway point of the previous reaction. This may just be a coincidence, but when combined with the failure of volume to increase on the upside, it looks more like a potential problem. A third potential problem is the divergence. With a lack of harmony of this magnitude, any movement to the downside must be watched carefully.

If the negative indications mentioned above are going to be overcome, it will be through a combination of price and volume action during the next few weeks. Most important will be the volume. It must remain low. Increasing volume on a move back to the bottom of the trading range will at least indicate the need for another test and could lead into a breakout on the downside. Also important will be relatively narrow price spread. This will indicate a meeting of demand.

At this point, the longer term investor may be long or neutral. Long positions that remain from the earlier major advance are dependent on continuation of previously established uptrends and the existence of higher objectives. Recently established long positions intended to be of a longer term nature must still be considered vulnerable. Unless the action of the next few weeks develops as indicated above, the error of premature action should be admitted and the positions given back to the market. At this point, there is no reason to be short for the longer term.

The intermediate trend of the market is far more complicated than the long term trend. The trend channel is clearly downward in direction. Therefore any positions that exist should be on the short side. The position in the down trend is a positive one. Therefore, any new positions on the short side are out of the question. All of this is very clear and simple. The complicated part has to do with the future of the present trend. It may be about to change.

The move down during the past week can be seen as a somewhat overdue test to the spring action of August 25. At this point in the test, there are signs of support being met just above the oversold line on reduced volume. We can also see a clearly oversold condition on the Technometer and a short term lack of harmony between the Wave and O.P. All of these point to the success of the test and another important effort on the upside. The upside objective established at the spring was 4160. With this much potential in place, some action appears warranted. A long position intended to be of a short term nature can be justified. Should the supply line of the intermediate term down trend give way such a position will return a considerable profit. If the line continues to be respected any long position established here should be eliminated immediately.

STOCK TRENDS

Throughout the recent decline in the general market, Exxon has remained solidly entrenched in its uptrend channel. Therefore, continued holding of long positions previously established is in order. The likely upside objective now appears to be forty-four. The preparation for the final push toward that objective is underway in a newly formed trading range between thirty-seven and thirty-nine. Working its way up from the bottom of the trading range is the demand line of the uptrend. In the next couple weeks, the horizontal movement of the price action will intersect the demand line. If the higher objectives are going to be reached, upside progress will be resumed at this time. If the demand line is penetrated, be prepared to use the next rally to close out long positions.

General Electric remains in a down trend with a maximum objective of twenty-nine to thirty-two. Therefore, its primary interest is as a candidate for the short side. Recently, the supply line of the current down trend was penetrated. This is a warning that the down trend may be about to give way to the trading range that also exists at the present time. A transition from down trend to trading range is not necessarily a signal to cover short positions due to the fact that the next trend may be down. It does, however, call for increased caution.

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Last week, General Motors completed a rally to a lower top on generally lower volume. This allows us to define a supply line and take a down count. The resulting objective on the downside is 57 to 60. Therefore, this stock should now be looked at as a potential short candidate. An opportunity to establish a short position may come during the anticipated rally in the general market. If GM is really turning weak, it will display an inability to rally and will do no better than to confirm the supply line. If so, a short position will be justified. On the way down, temporary support may be expected around 70 and then again around 66. Persistent support in either area should be seen as an indication to close out short positions.

Although not in an uptrend, IBM continues to show relative strength when compared to most of the rest of the market. Since the middle of July the stock has gone from an upthrust position into a spring position and tested both successfully. As a result, it is still locked in a trading range. Therefore, there is nothing to do here but wait and watch carefully because the potential that is building indicates a substantial move. With the test of the spring coming at a lower level and on increased volume and with the upthrust being tested for the second time, a break to the downside appears more likely. However, short positions should be postponed until the anticipated rally in the general market has had a chance to run its course.

The downside objective in Merrill Lynch is 25 to 31. At present, the stock is too far down in its down trend channel to be shorted. However, the end of the anticipated rally in the general market may change this. Recently, the stock has exhibited an inability to rally well. Therefore, a rally in the market is likely to produce no more than a rally to the supply line in this stock. If so, it may be shorted.

For the first time in many months, something of interest has occurred in Pepsico. On Tuesday, it went into spring position after several slight penetrations of the supply line. The initial positive response to the spring will break the supply line. The test of the spring will confirm the break. Both the current spring and the anticipated test may be used to take long positions. Anyone who is currently short in this stock should be closing out those positions.

The action of the past two weeks in UAL has accomplished several things. It has confirmed the existence of a new trading range between 28 and 34 and has confirmed the breaking of the supply line. It has also produced a spring position, but since there is no count this is of no consequence. At present, there is nothing to do with this stock except let it build potential for the next move.

The recent relative strength in Union Carbide makes it a candidate for a long position. The problem with this stock is its count. It does not appear to have one. Without a well defined target in mind, it is not possible to know whether the stock represents a good opportunity or not. Therefore, it seems best to leave it alone for now. Existing long positions may be held as long as the price can continue to hold at least half of its recent gains.

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SEPTEMBER 14, 1983.

INDEX CHARTS
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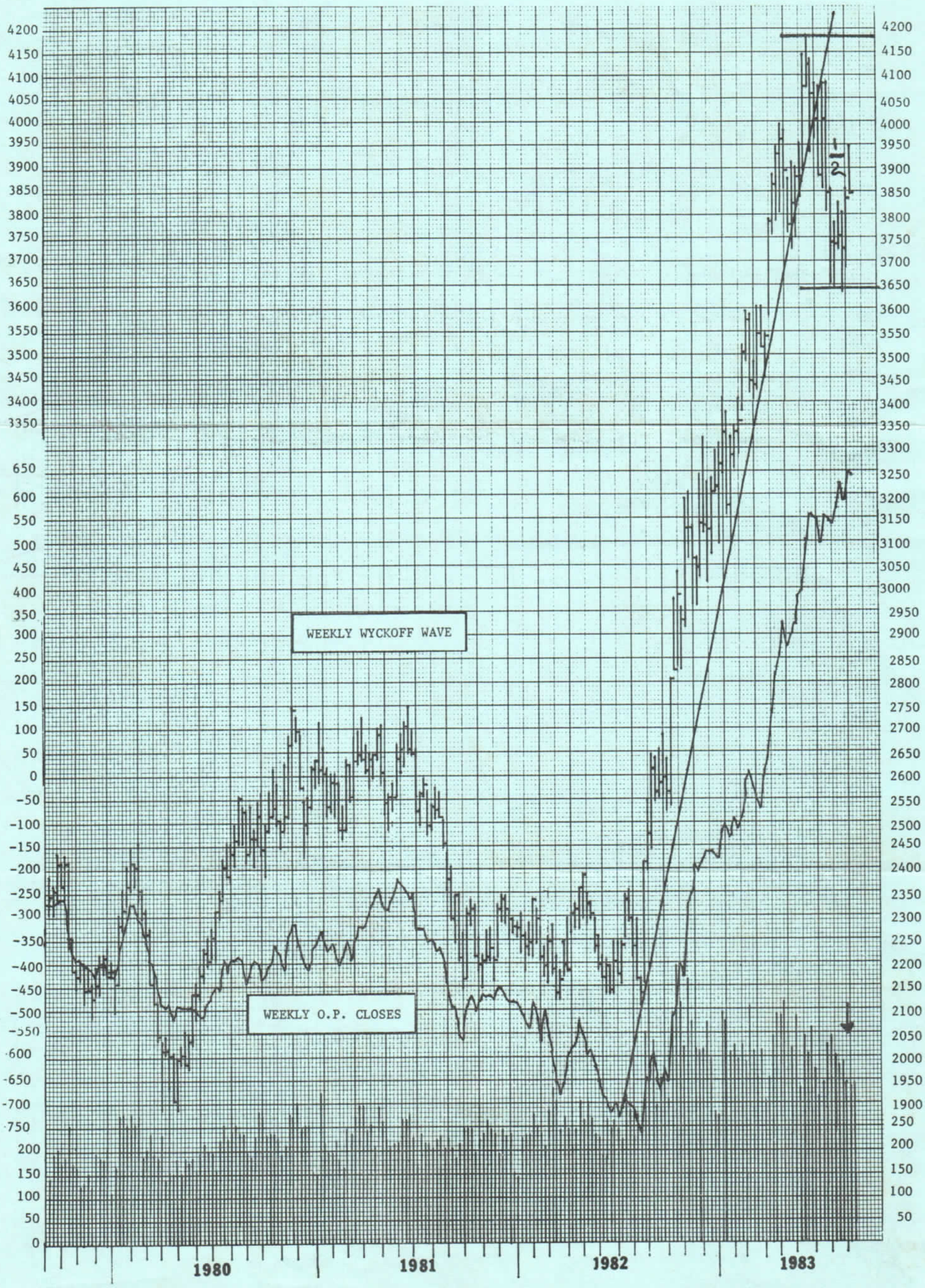
This set of SMI Index Charts is published weekly and is available only to subscribers of SMI's DAILY STOCK REPORT/PULSE OF THE MARKET or SMI's CHARTING SERVICE. It contains the following charts:

Weekly Wyckoff Wave	Group Indexes:	Electronics
50-Point Modified Wyckoff Wave	Aerospace	Gold and Silver
25-Point Modified Wyckoff Wave	Airlines	Insurance
3-Point of the 10-Point Modified WW	Autos	Machinery
10-Point Modified Wyckoff Wave	Banking	Medical
Two Point Modified O-P	Building Materials	Metals
½-Point Time Index	Chemicals	Office Equipment
Trend Barometer/O-P	Computers	Oil Exploration
Intra-Day Wave Chart	Diversified	Oils
5-Point Modified Wyckoff Wave	Drugs	Semi-Conductor

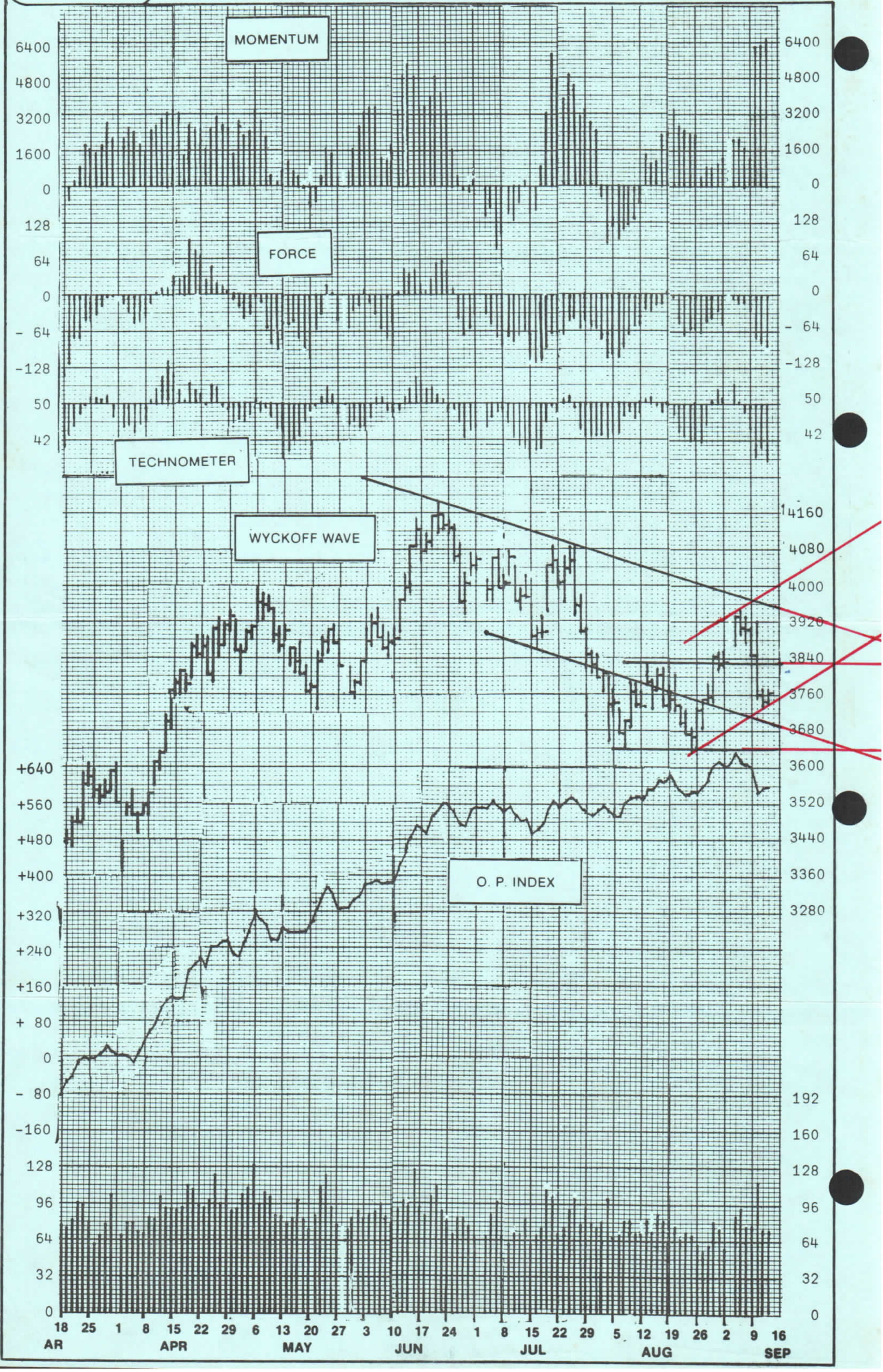
In our desire to insure the accuracy and reliability of these charts all statistical data is checked and cross-checked. However, even with this care, the completeness and accuracy cannot be guaranteed.

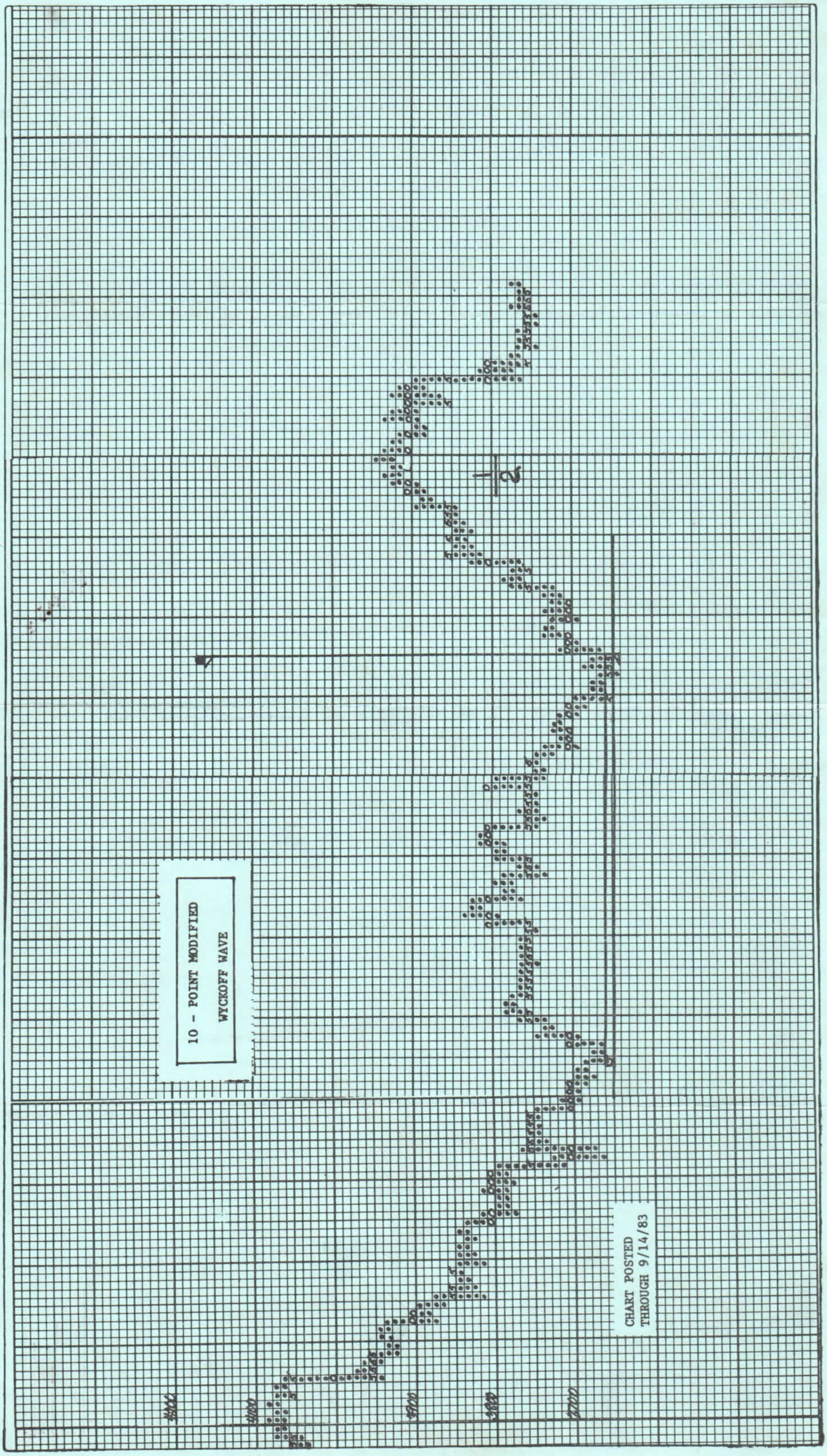


The Pulse of the Market

STOCK MARKET INSTITUTE

WEDNESDAY SEPTEMBER 14, 1983

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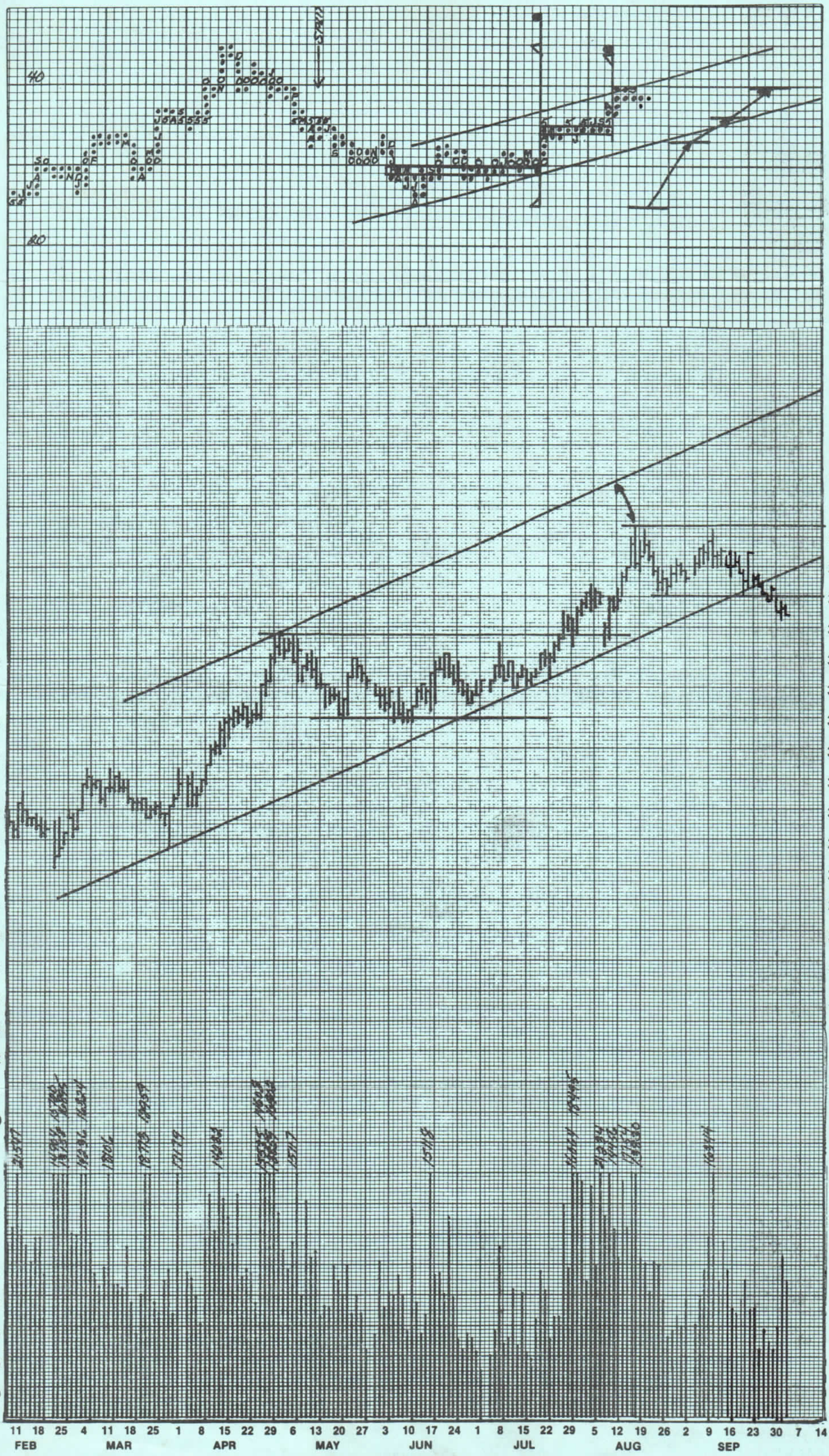

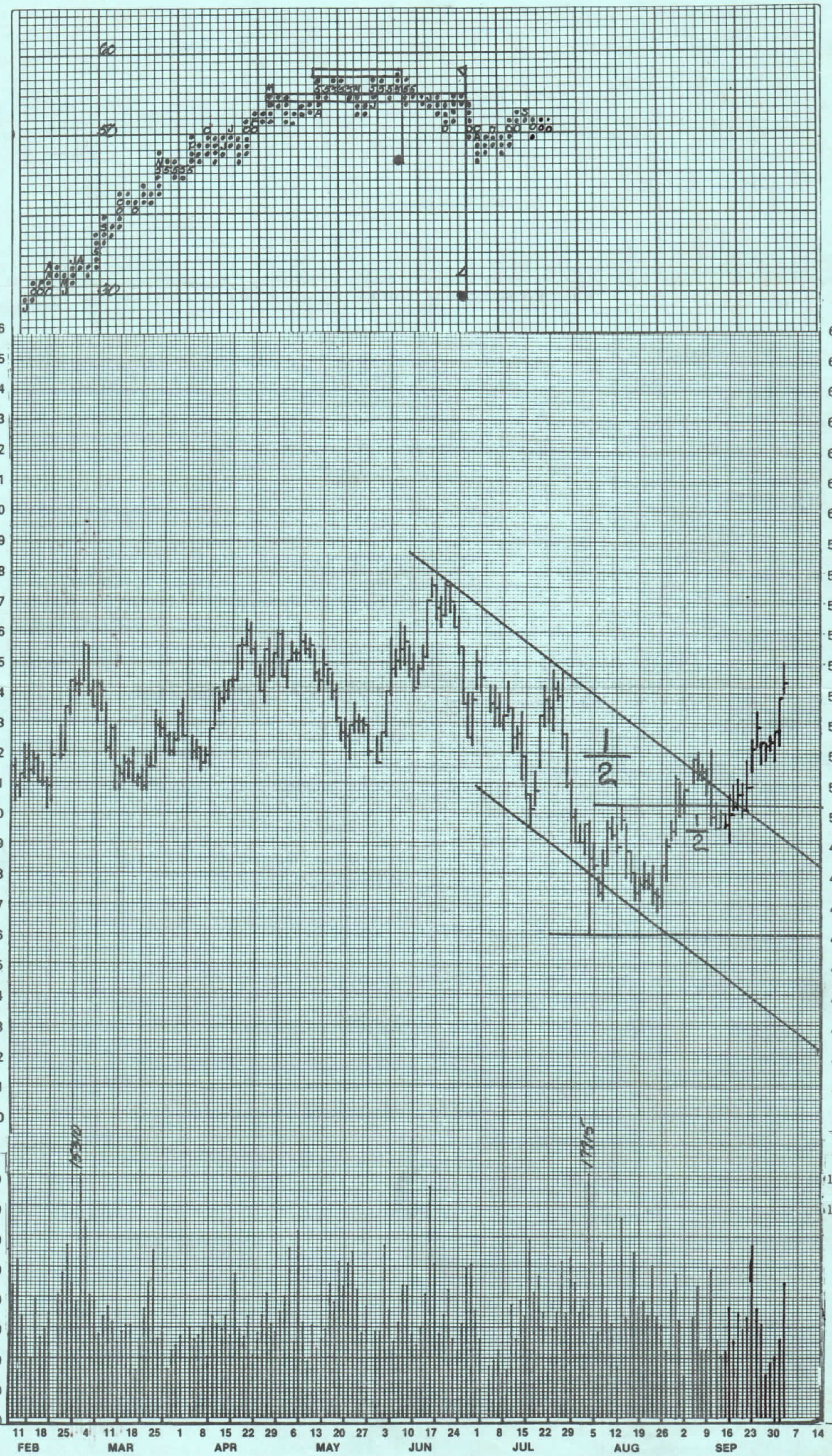
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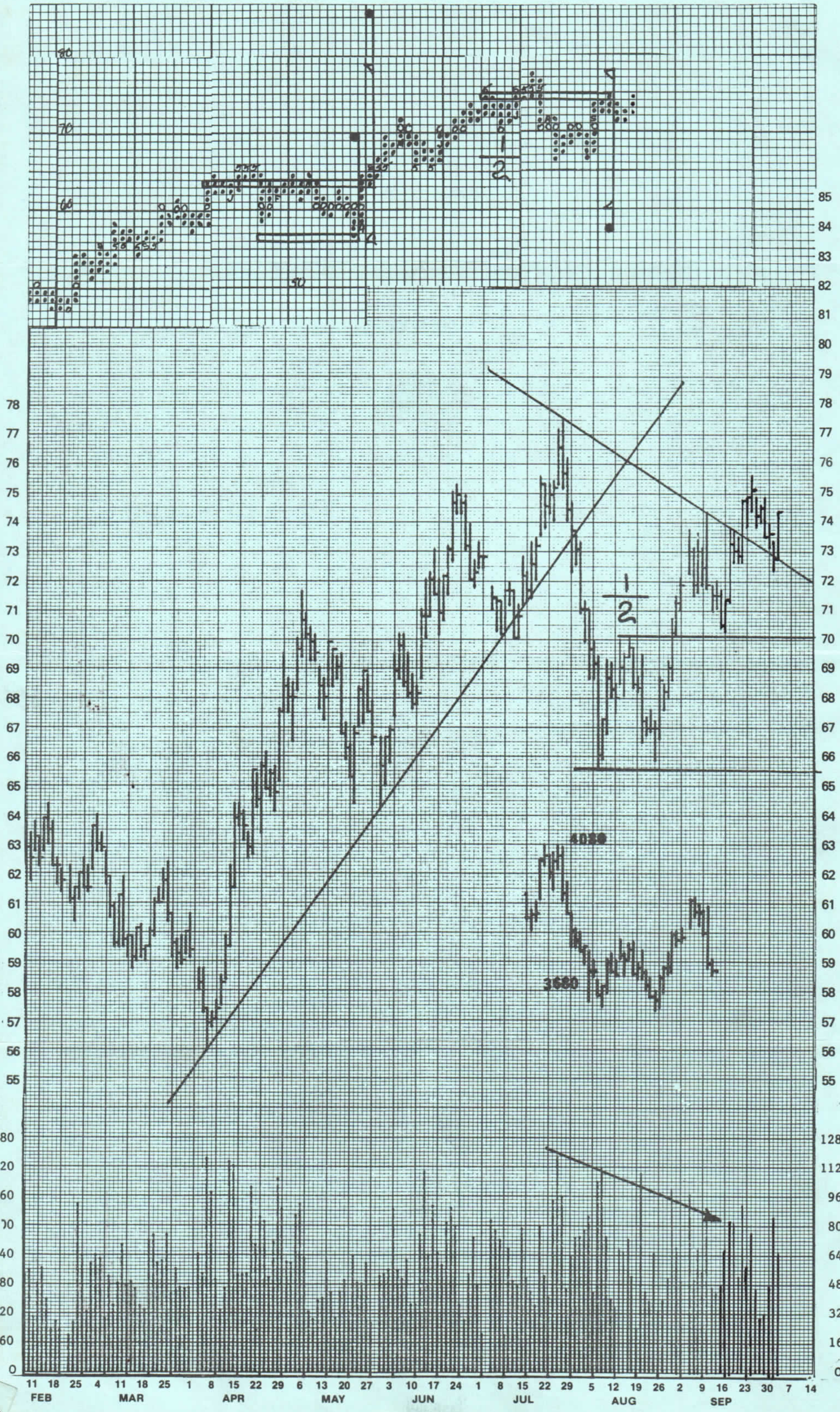

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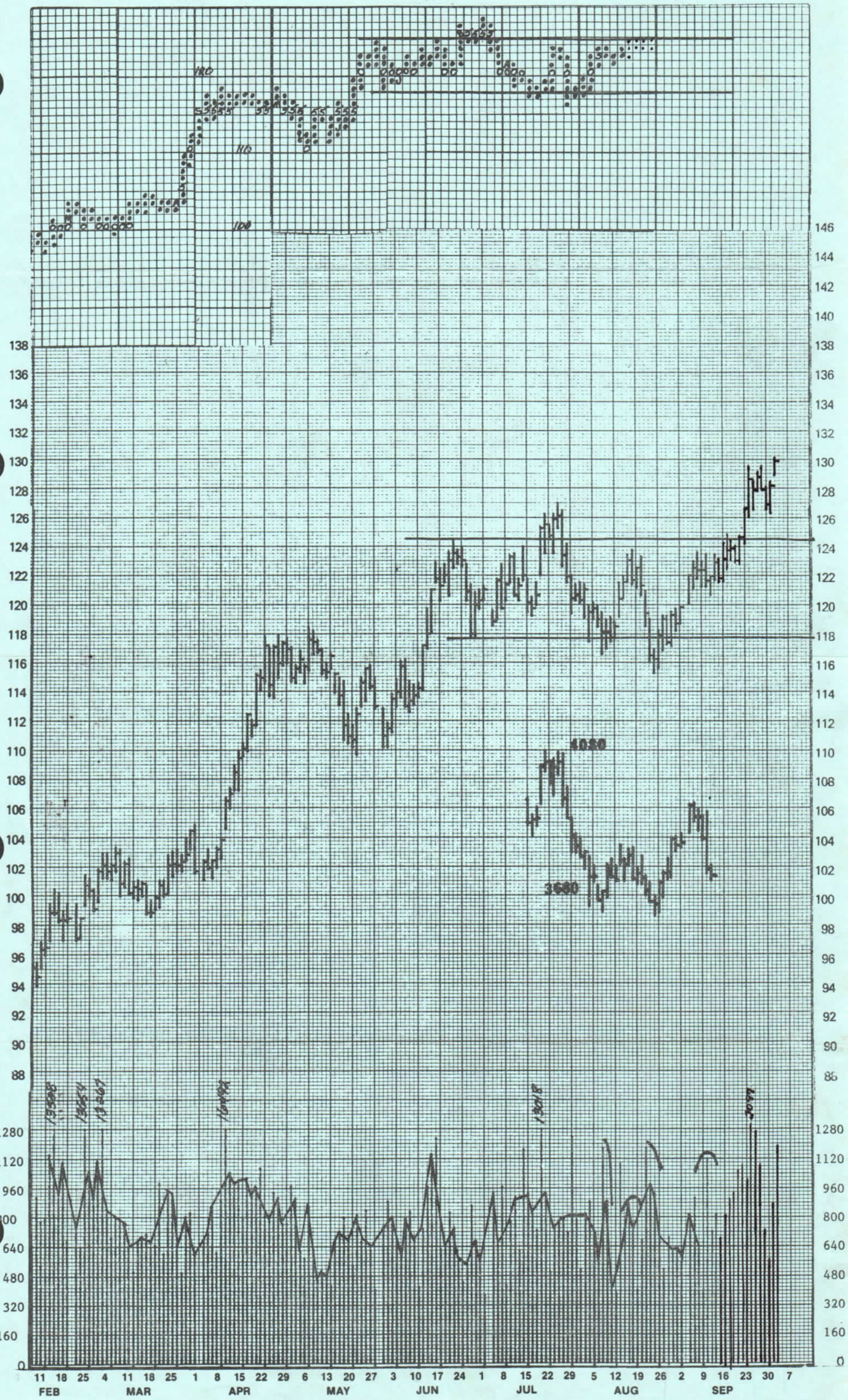
IBM

COMPUTERS

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



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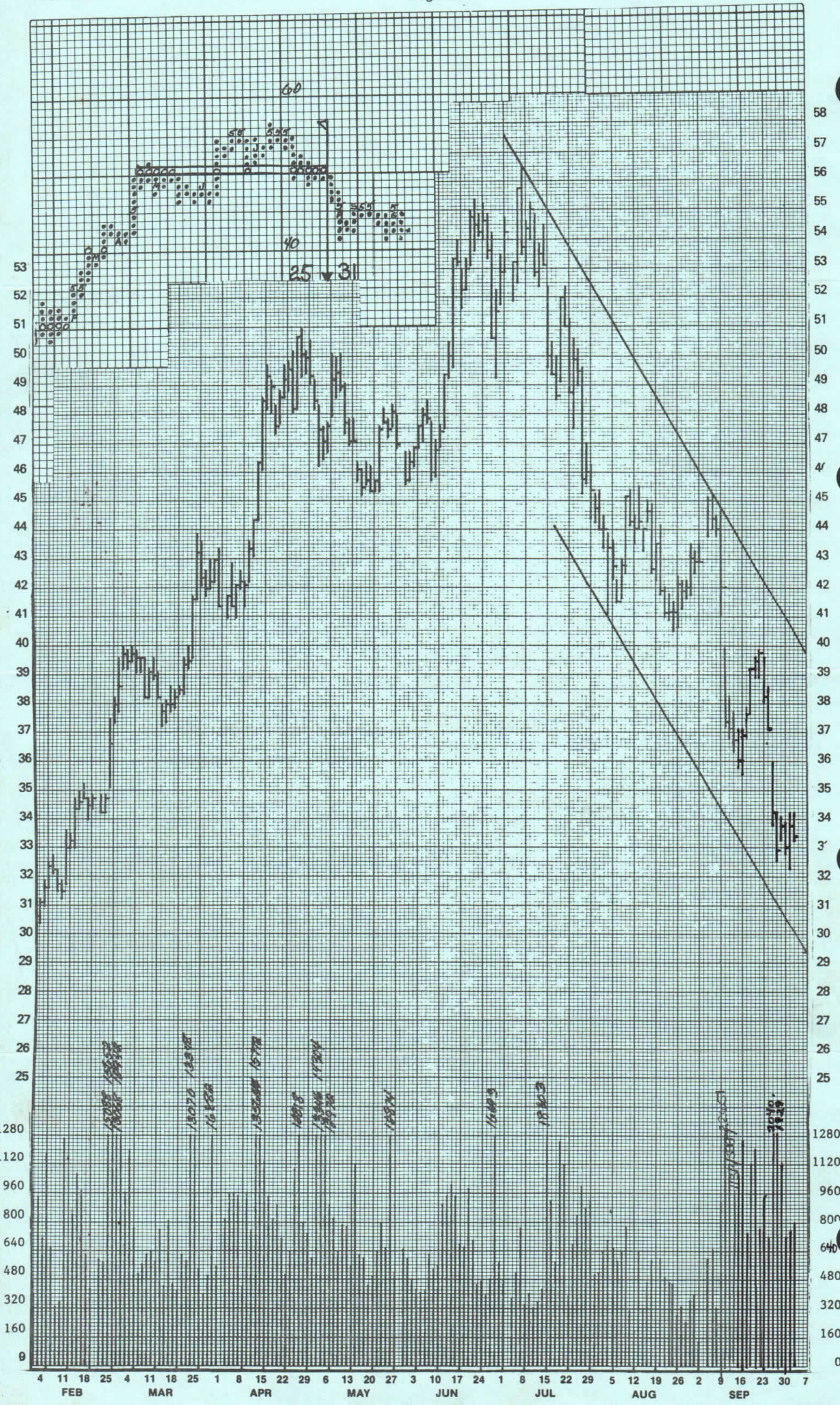
MERRILL LYNCH (MER)
A.S.E. (p&c)

BROKERAGE FIRMS



PEPSICO (PEP)
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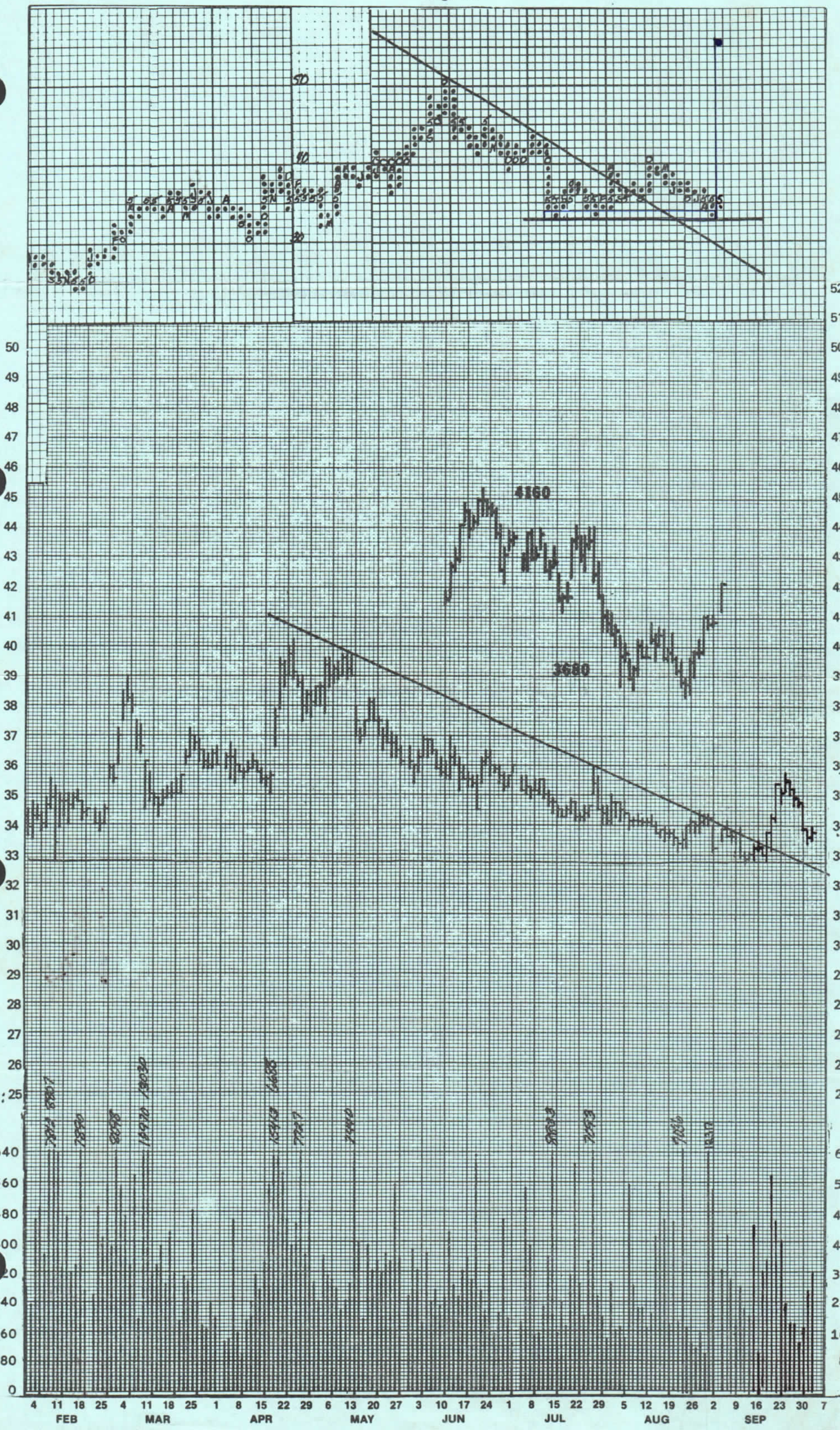
SOFT DRINKS



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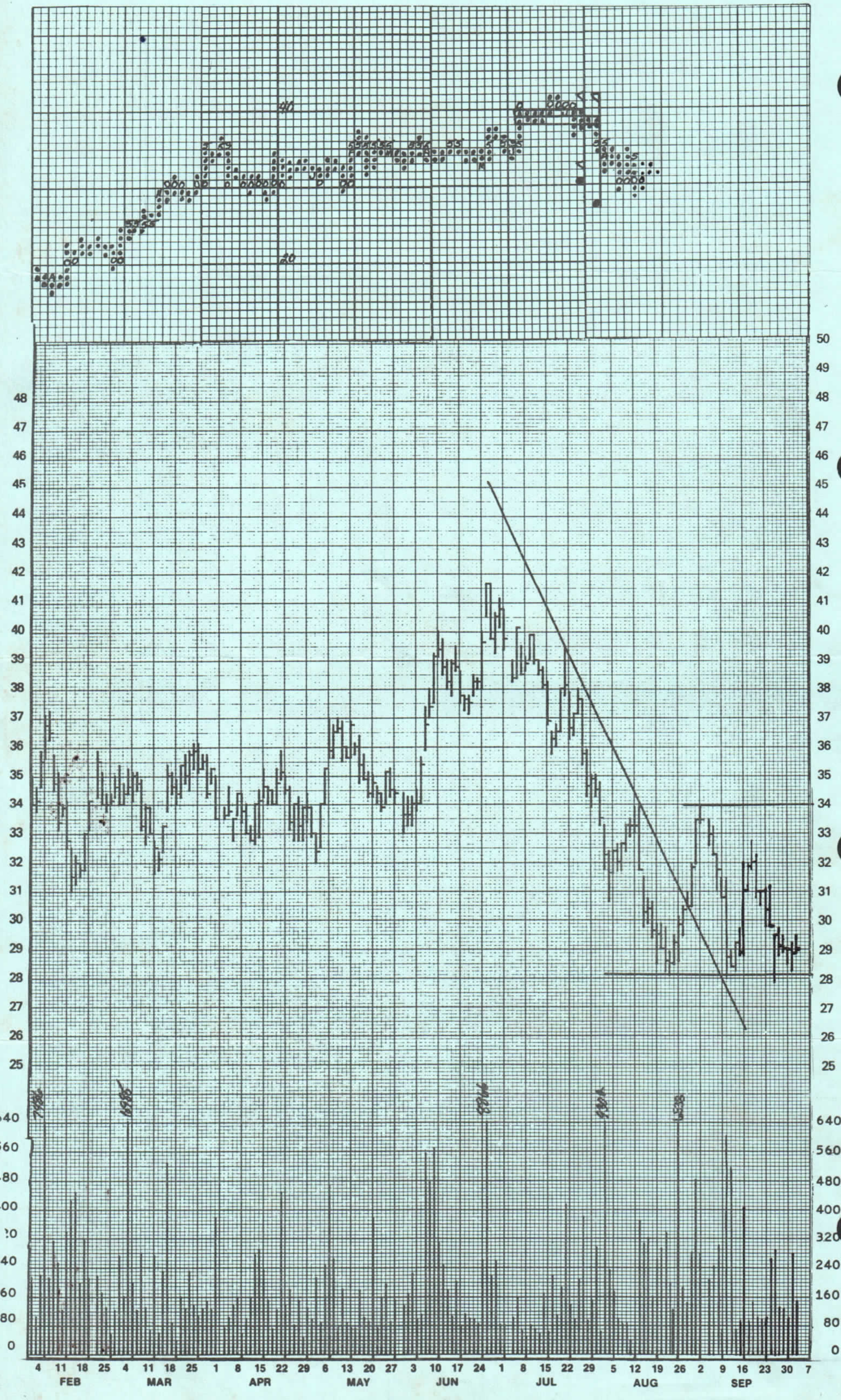
U.A.L. INC. (UAL)

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

AIR TRANSPORT



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UNION CARBIDE (UK)
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CHEMICALS