SMI The Trend Letter

Thursday, September 30, 1982

MARKET TRENDS

The market will correct. This has been the opinion of most technical students of the market for much of the last four weeks. That being the case, why hasn't the market begun its correction? It has. The reason so many investors think it has not is due to a limited definition of the word correction. Normally, the correction to an advance is a reaction that gives back half the gain from the previous rally. As we have seen, however, the market does not always behave in a normal manner. A very strong market can correct itself with an extended period of horizontal action. During these periods, many of the individual stocks do make corrections of varying magnitudes, but they do so gradually and not all at once. This leads to an appearance in the general market of no correction, which is what we are seeing in the Wyckoff Wave currently. It should be noted, however, that at this point seventy-nine percent of the stocks followed by SMI are lower than they were when the current trading range began to form on September 3. Therefore, we need to be very careful in our evaluation of what is actually happening.

One thing we can say with certainty is that the Wyckoff Wave is in a trading range. Another thing that can be said with a high degree of certainty is that the Wave has not as yet flashed a clear signal as to the direction in which it plans to leave the trading range. This may seem surprising in view of some of the action of the past week, but it shouldn't be. This is because the action of the past week is not the whole story.

A very negative opinion on the market's recent action is based on the upthrust that occurred on Wednesday, September 22 and the test of that upthrust that occurred this past Tuesday. This combination of events represents an important failure on the upside. It also provides the basis for defining a short term down trend. The test of the upthrust can be seen as a last point of supply from which a down count can be justified. The maximum potential possible from this level could take the Wyckoff Wave as low as 2300. However, we can see that this count can be divided into three phases. The objective of the first phase has already been reached.

In view of the negative indication given by the upthrust action and its test and the indication of a lower objective provided by the figure chart, one might be inclined to look for an immediate continuation of the decline. There are factors working against this, however. Perhaps the most important of these is the oversold condition of the Technometer. This works against immediate substantial progress on the downside. Any attempts to push lower now should only aggravate this condition and make the market even more vulnerable to at least a short term rally. This is confirmed by the position of the Wave within the downtrend channel. It is very near the bottom. A modest decline from the current level would create an oversold position on the downtrend and provide another reason to expect a rally.

A third reason to expect a rally has not as yet developed, but almost certainly will during the next couple days. The low point reached on September 29 was only one quarter point above the bottom of the trading range. This means the market is on the verge of going into a spring position. The last time a spring position was established the market exploded upward. This should not happen again, but some type of positive response is likely. A rally back to the top of the down trend channel would be normal. Such a move would satisfy the spring and remove the oversold condition, which would open the door to the all important test of the spring on which a breakout on the downside needs to occur if the remaining two phases of the downcount are to be fulfilled.

How should we trade a market that is filled with so many contradictions? For those who are on the short side already, it seems best to stay there if at all possible. This is based on the fact that a downtrend is in place. However, all short positions should not be retained. Only those in stocks that have begun corrections should be held. These are the only positions that will be able to survive the expected positive response to the spring and oversold condition. Positions on the short side that are now higher than when taken or only fractionally lower should be closed out. These are too vulnerable to a rally.

What to do about the long side at this point is a more difficult question to answer. Since an immediate upside response appears so likely, long positions might seem in order, but the possibility of nothing more than a rally in a developing down trend neutralizes. Only the very shortest term trader should consider long positions at this time in stocks such as PEP, IBM and MER. Everyone else should wait for a higher low on the test of the spring.

STOCK TRENDS

The stocks we follow remain very mixed. This is as it should be with the Wyckoff Wave in a trading range. The fact that the stocks are so mixed should not be taken as an indication that they are all candidates for both long and short positions. The stocks are very clear on the types of positions for which they are candidates.

Exxon has been a short and intermediate term candidate on the short side. Its failure to participate in the recent general market rally makes it less vulnerable to the presently indicated rally. The important level for this stock is 27.1. If the market responds to its spring position and makes its test and XON cannot break through 27.1, it will be time to cover and probably reverse to the long side. Until then, short positions can be held in this stock.

General Motors is another stock that has been a short to intermediate term short candidate with a downside objective of 43. Like Exxon, it also has an important support level. In this case, it is 46.1. Earlier this week the support level was tested and held on low volume. It is now testing the support again. If it holds, short term short positions should be eliminated. An intermediate position on the short side may be held in anticipation of a rally no further than the short term supply line.

A service of STOCK MARKET INSTITUTE, INC. 715 E. Sierra Vista Dr., Phoenix, Az. 85014

A stock that has become very weak recently is UAL. Therefore, it cannot be considered for the long side even though the market is oversold and in a spring position. The positive response to the spring in the general market should be watched as a shorting opportunity in this stock if the price is between twenty and twenty-one. With an objective in the fifteen to sixteen area, a short position above twenty would represent a respectable potential profit.

Union Carbide has developed weakness also, but it cannot be considered a prime short candidate. One of the problems with this stock is its downside potential, it may only be to 44 to 45. That is not very far from the current level as a percentage move. A more aggressive downside count indicates an objective of 40 to 42. This is worthy of consideration but only if the rally from the oversold condition is unimpressive.

The remaining four stocks in the Wyckoff Wave are not good candidates for the short side. This is mainly due to their prior strength and ability to hold those gains. This is especially true of Pepsico and I.B.M., which have been able to sustain upside progress even though the market has entered a trading range. General Electric and Merrill Lynch have also entered trading ranges, but are still holding most of their gains. They should only be considered as possible long candidates unless the market makes a clear break below the bottom of its trading range, which at this point seems unlikely.

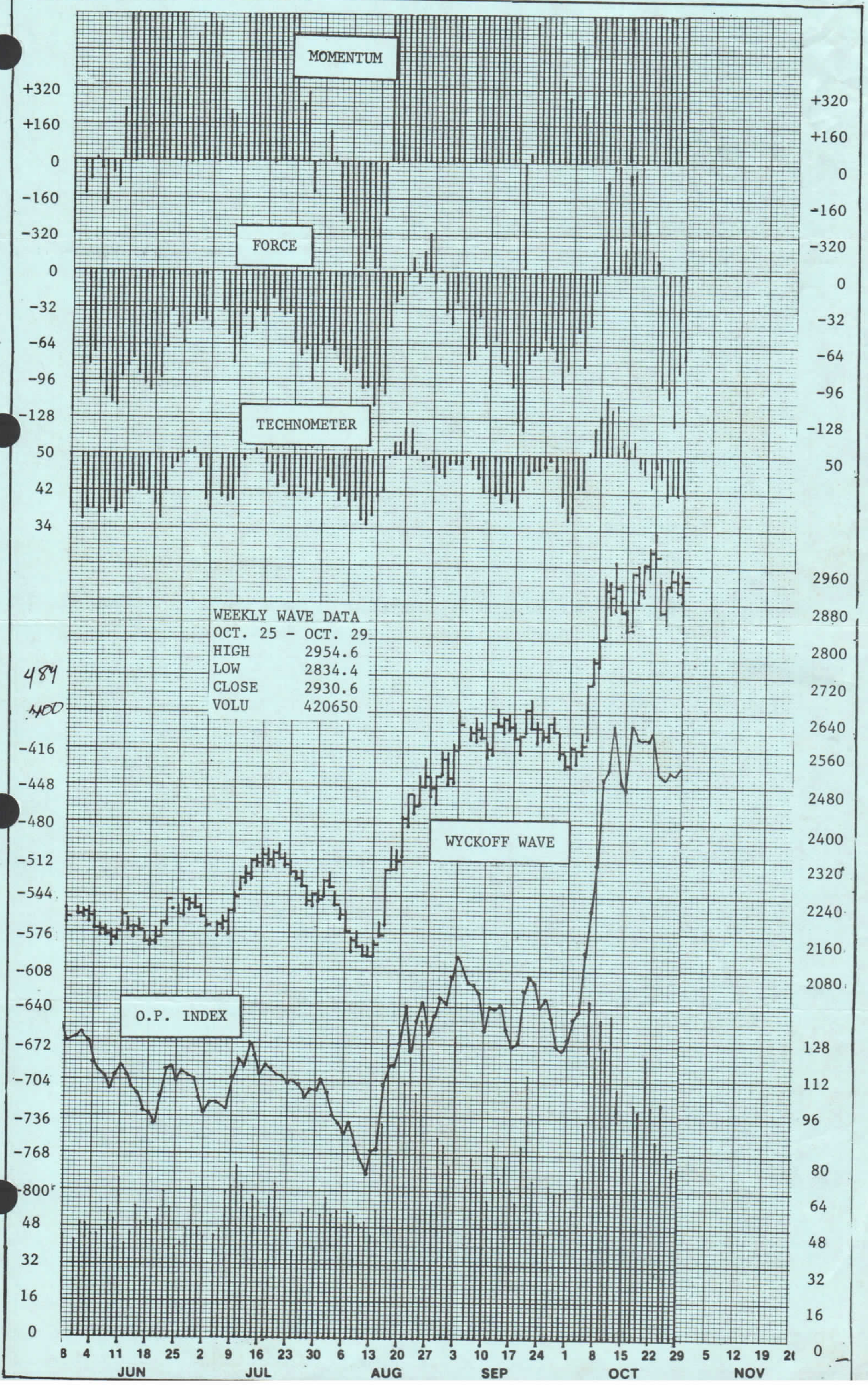
It should be noted that the market is still being looked at from a traders standpoint. This is necessary because of the action that is occurring. The sharp advance lasted three weeks. We have now been in a trading range for four weeks. This suggests that the pattern of the past two years of prolonged trading ranges separated by short sharp moves is continuing. This works against the long term investor. At this point, the long term investor with long or short positions can justify holding his positions providing certain criteria are met. In the case of long term long positions, the price must now be higher than at any time since September 1981. In those cases where it is not, the current levels should be used to close out these relatively weak positions. Where long term short positions are held, they may be maintained if current levels are not higher than any time since last September and if the progress that has been made recently has not made up more than half of the decline from the 1981 high. All other long term short positions are suspect and should be closed out on reactions.

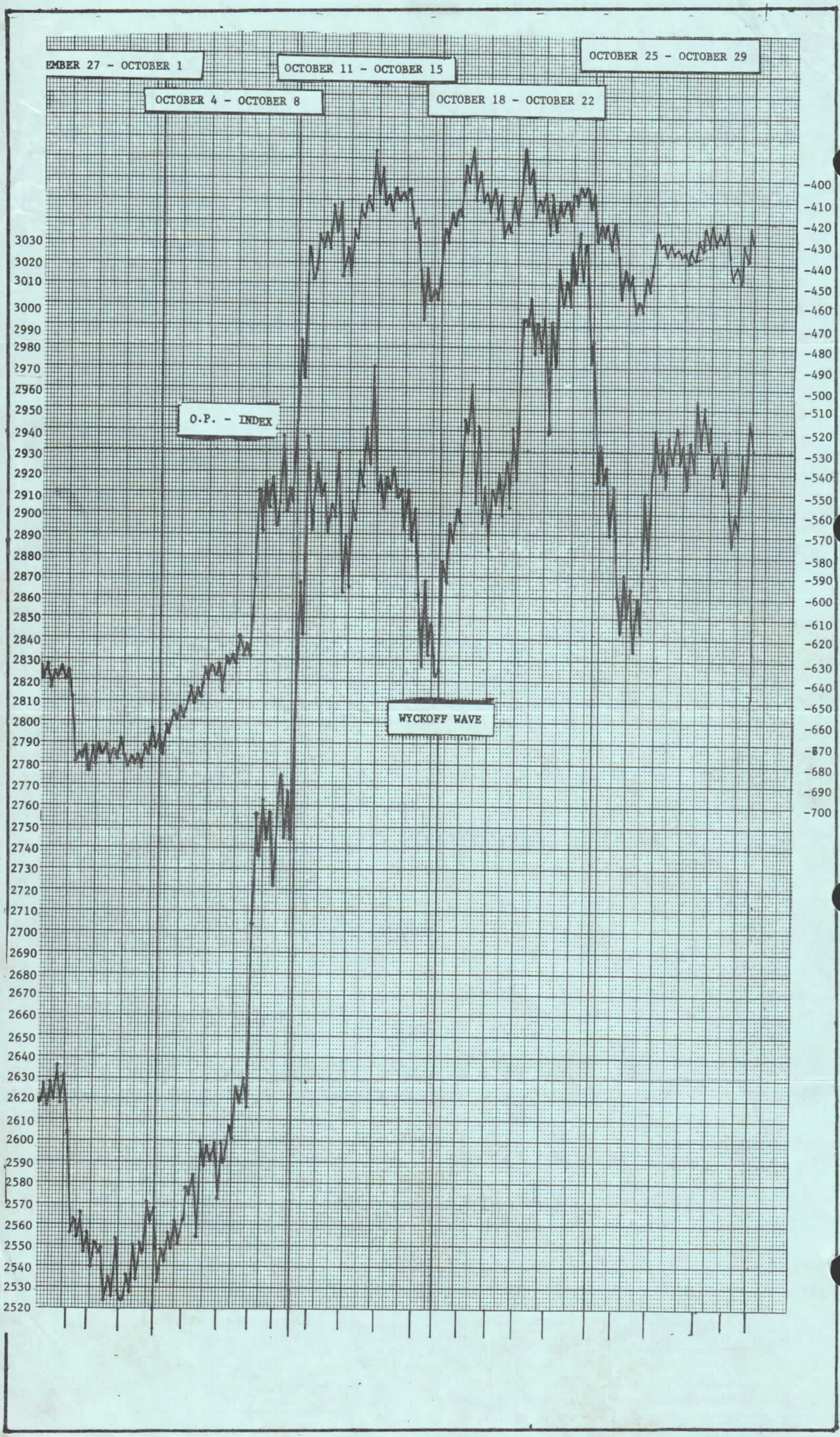
NOTE: in the next issue of Trend Letter we will begin following the action of the S & P Index Future.

The Pulse of the Market

STOCK MARKET INSTITUTE

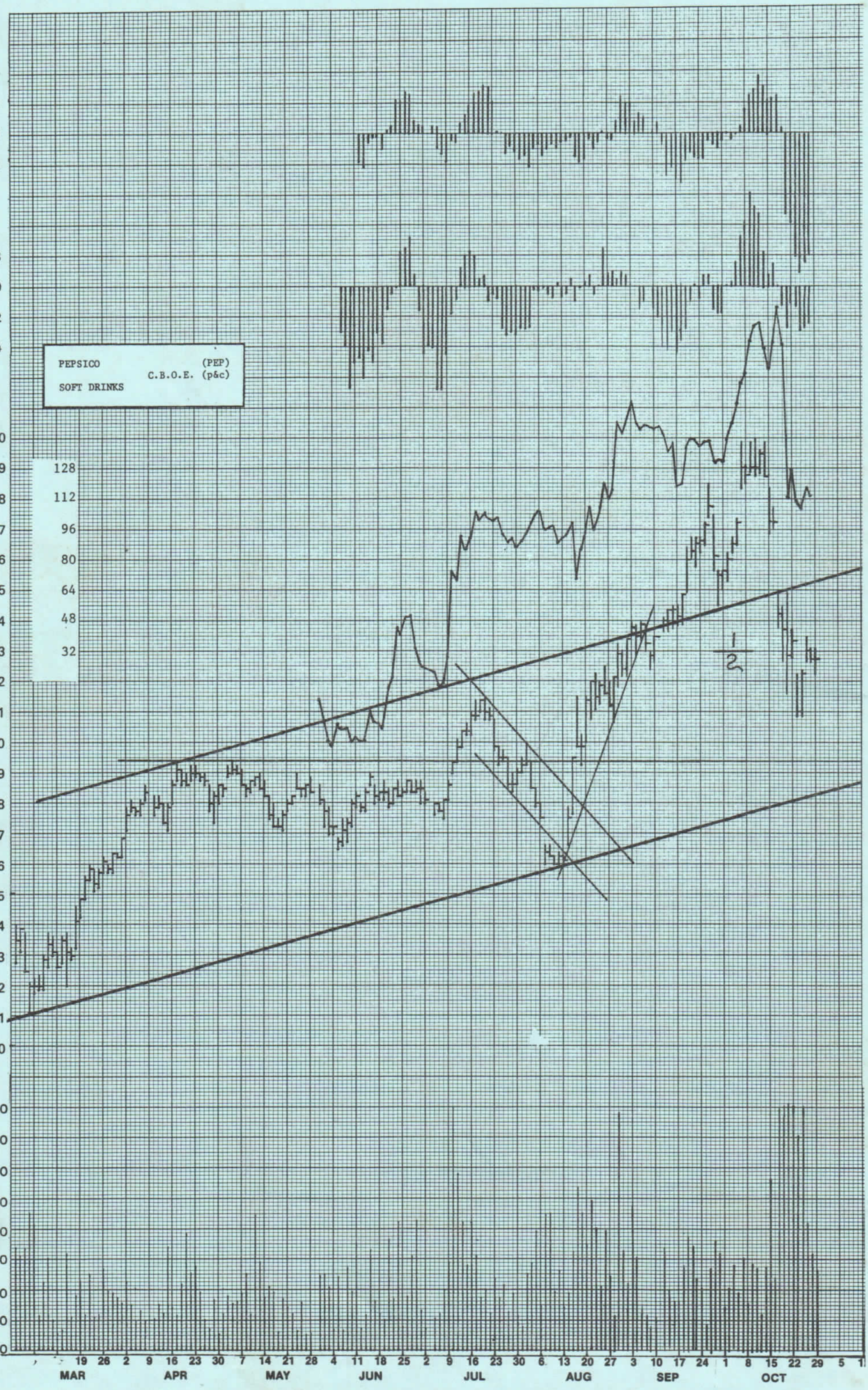
FRIDAY OCTOBER 29, 1982



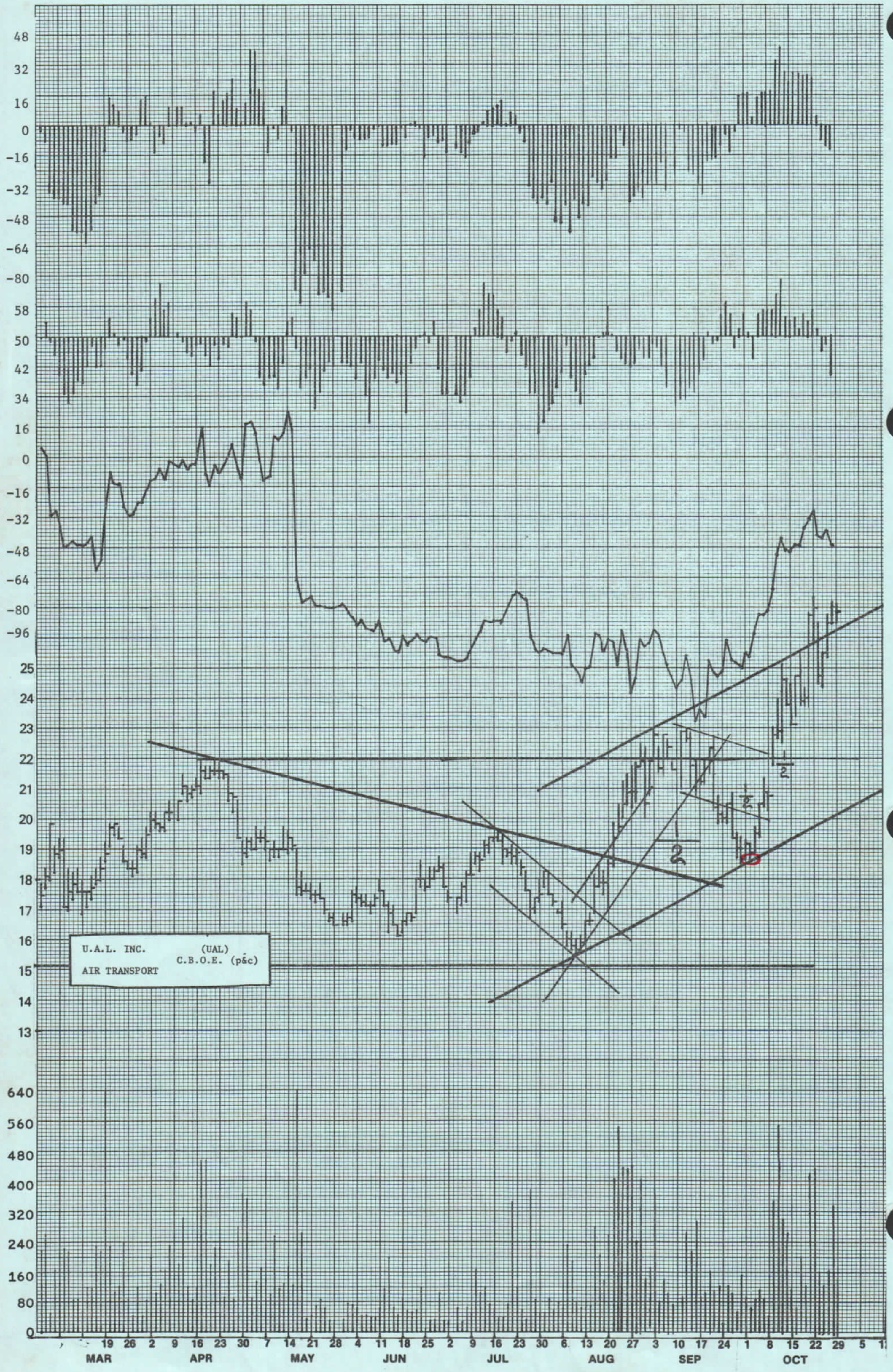

EMBER 27 - OCTOBER 1
OCTOBER 4 - OCTOBER 8
OCTOBER 11 - OCTOBER 15
OCTOBER 18 - OCTOBER 22
OCTOBER 25 - OCTOBER 29
O.P. - INDEX
WYCKOFF WAVE
3030
3020
3010
3000
2990
2980
2970
2960
2950
2940
2930
2920
2910
2900
2890
2880
2870
2860
2850
2840
2830
2820
2810
2800
2790
2780
2770
2760
2750
2740
2730
2720
2710
2700
2690
2680
2670
2660
2650
2640
2630
2620
2610
2600
2590
2580
2570
2560
2550
2540
2530
2520
-400
-410
-420
-430
-440
-450
-460
-470
-480
-490
-500
-510
-520
-530
-540
-550
-560
-570
-580
-590
-600
-610
-620
-630
-640
-650
-660
-670
-680
-690
-700

SMI

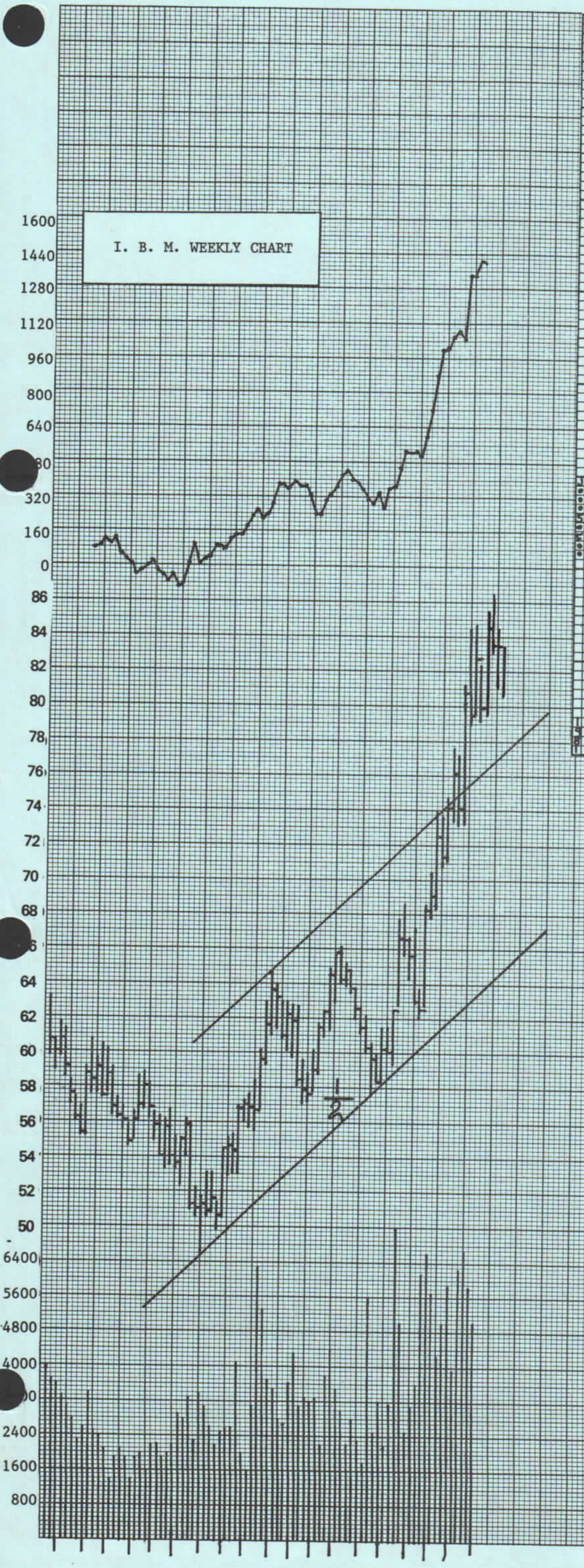
Home Office: 662 Busse Highway, Park Ridge, Il. 60068, (312) 825-5511
Marketing/Publishing/President: 715 E. Sierra Vista Dr., Phoenix, Az. 85014 (602) 248-8244

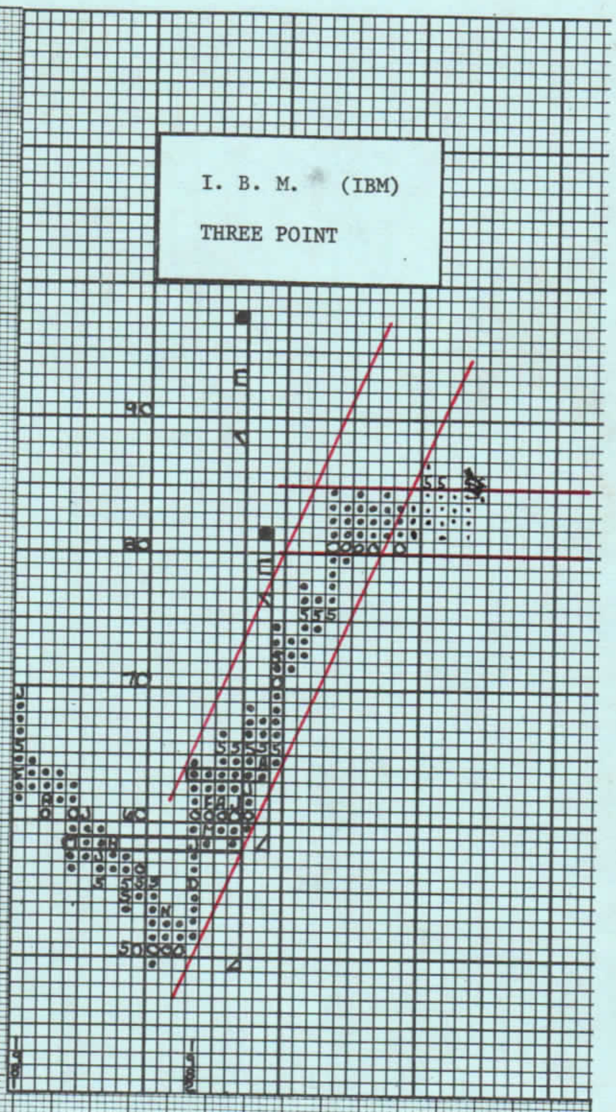


SMI **Home Office:** 662 Busse Highway, Park Ridge, Il. 60068, (312) 825-5511
Marketing/Publishing/President: 715 E. Sierra Vista Dr., Phoenix, Az. 85014 (602) 248-8244



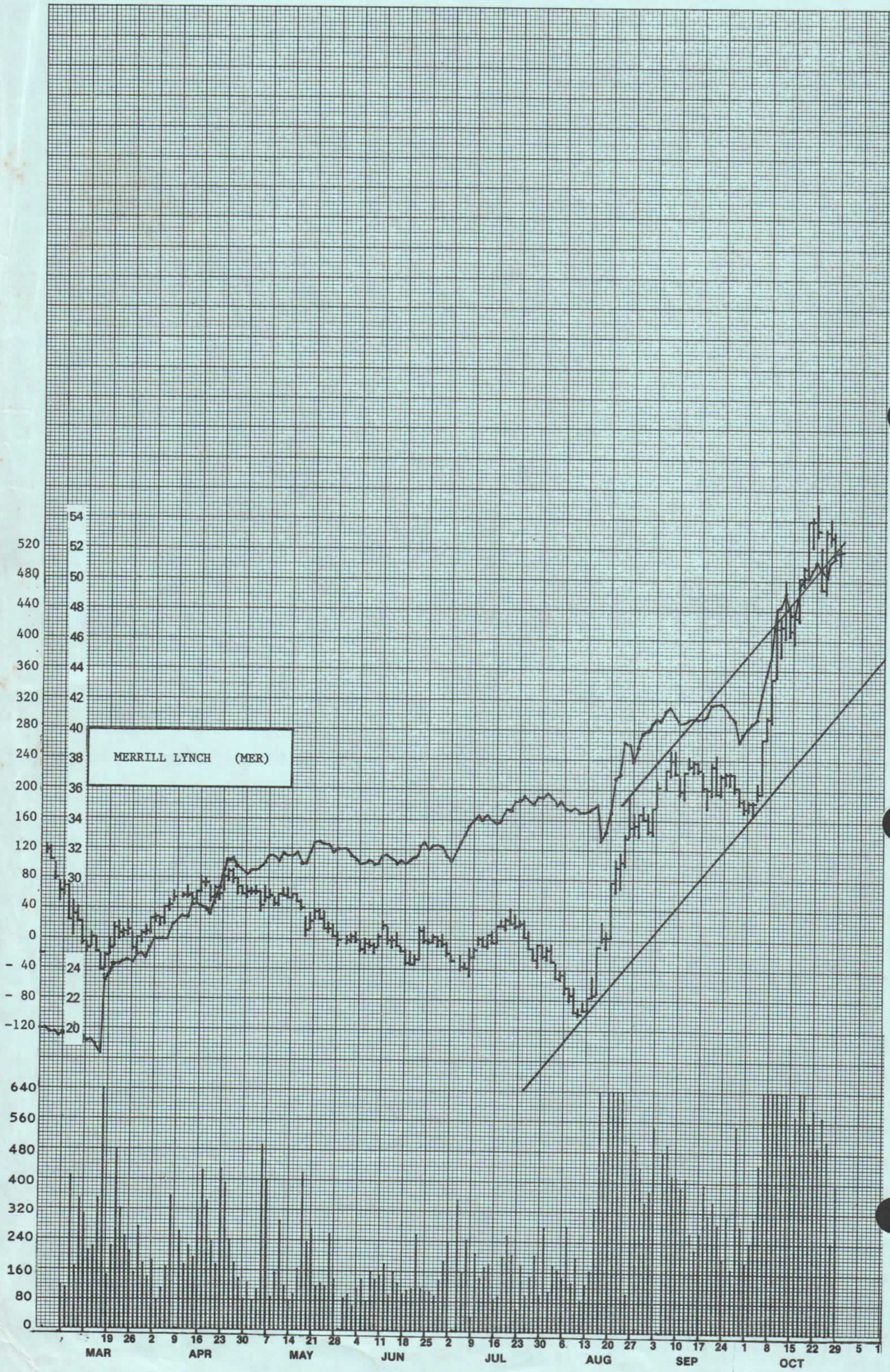
SMI
Home Office: 662 Busse Highway, Park Ridge, Il. 60068, (312) 825-5511
Marketing/Publishing/President: 715 E. Sierra Vista Dr., Phoenix, Az. 85014 (602) 248-8244

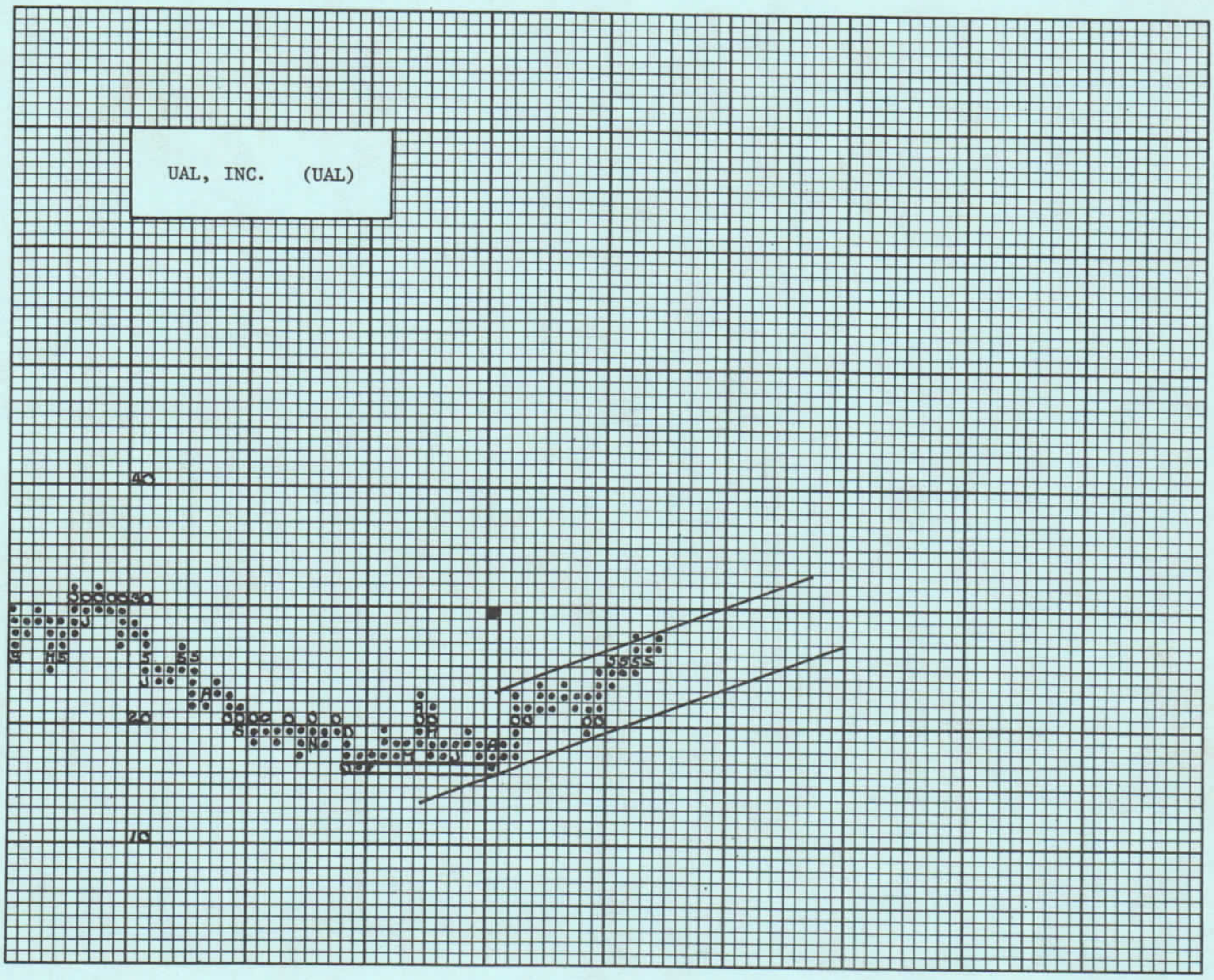


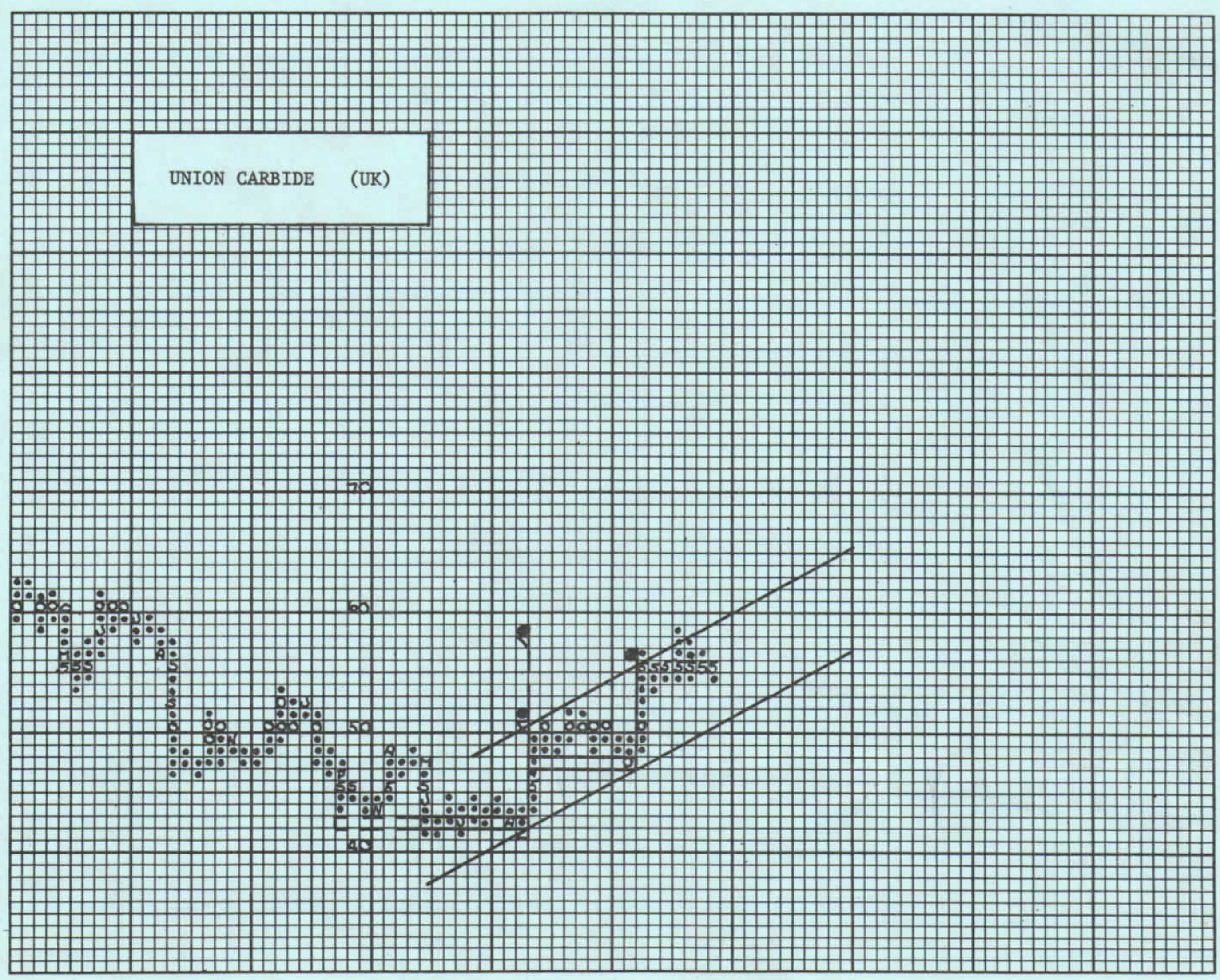


SMI

Home Office: 662 Busse Highway, Park Ridge, Il. 60068, (312) 825-5511
Marketing/Publishing/President: 715 E. Sierra Vista Dr., Phoenix, Az. 85014 (602) 248-8244

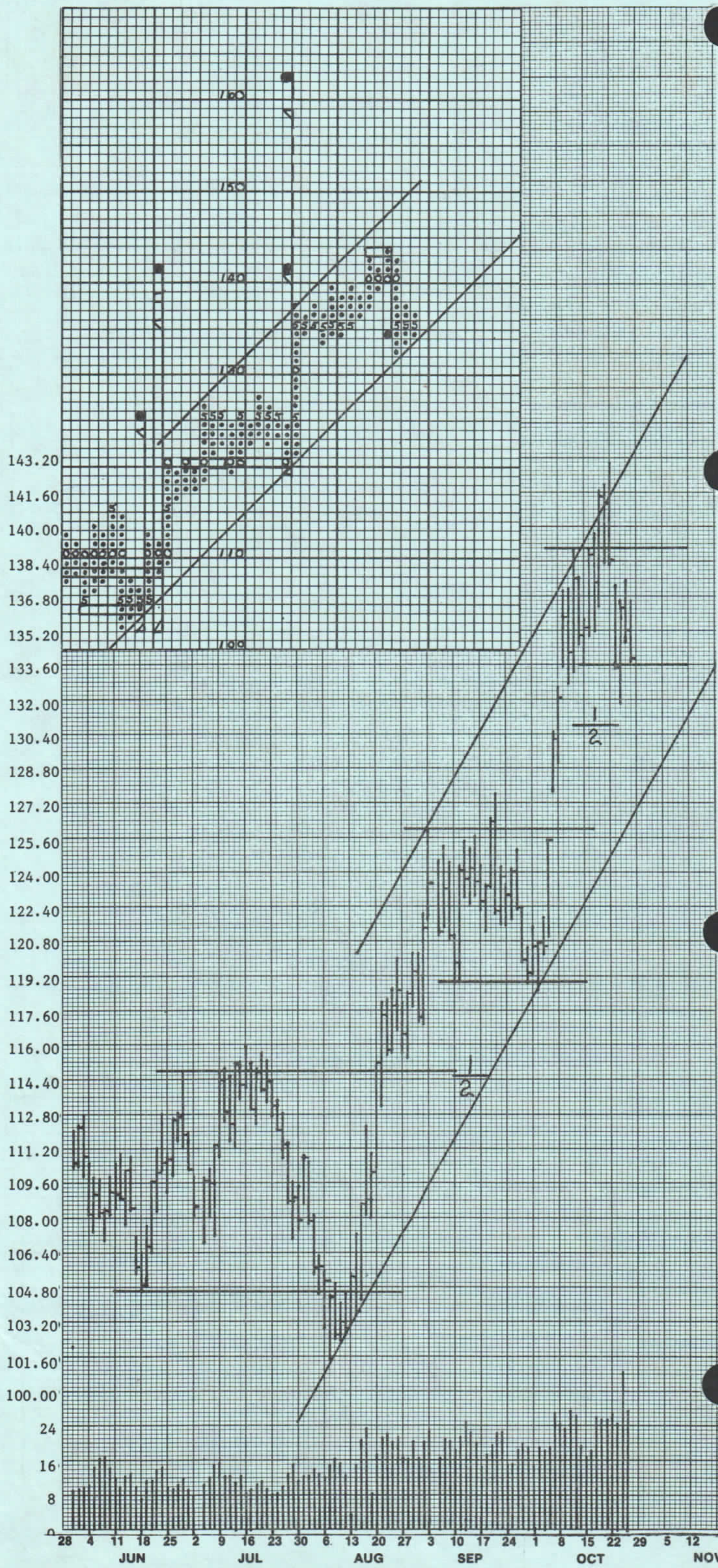



UAL, INC. (UAL)
40
30
20
10

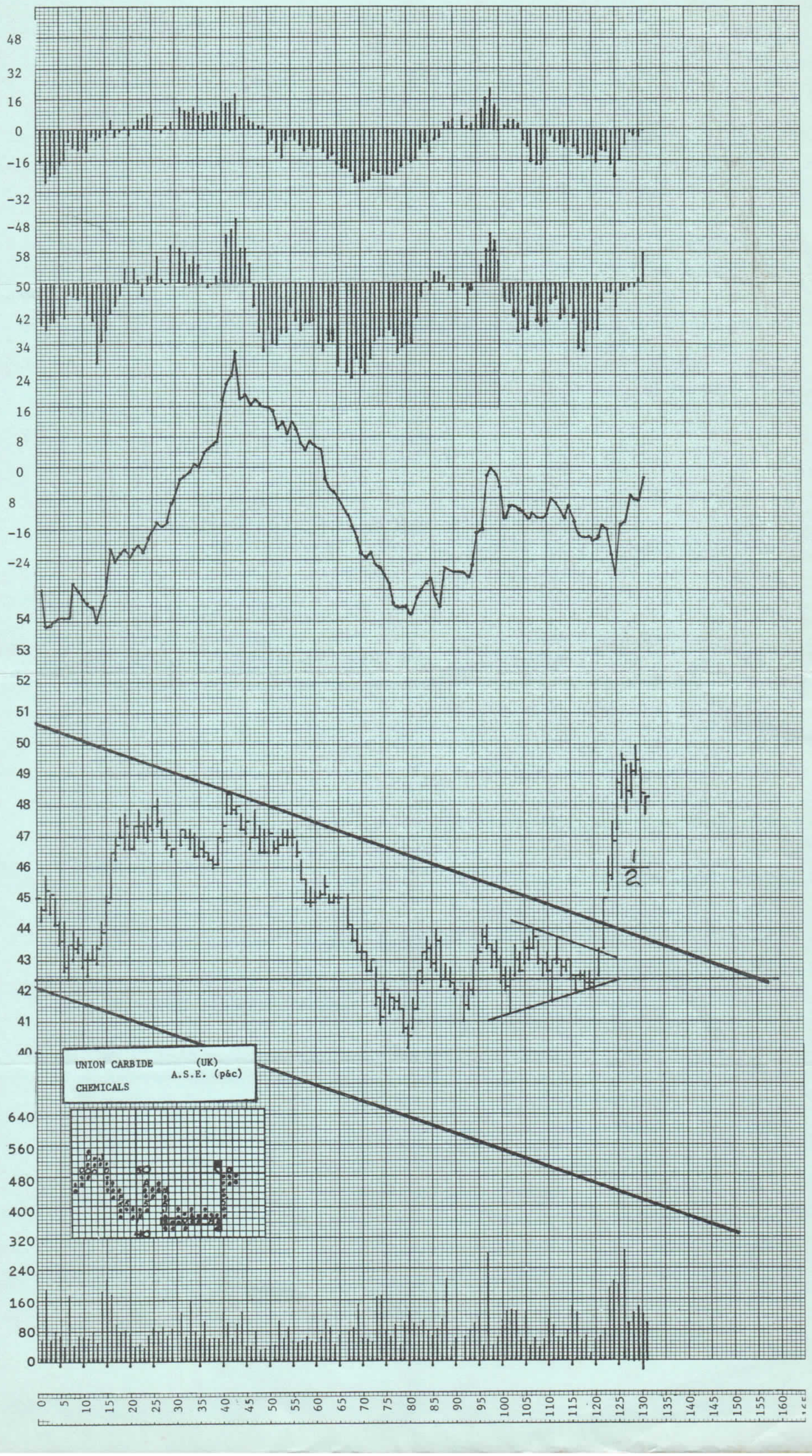

UNION CARBIDE (UK)
70
60
50
40

SMI

Home Office: 662 Busse Highway, Park Ridge, Il. 60068, (312) 825-5511
Marketing/Publishing/President: 715 E. Sierra Vista Dr., Phoenix, Az. 85014 (602) 248-8244

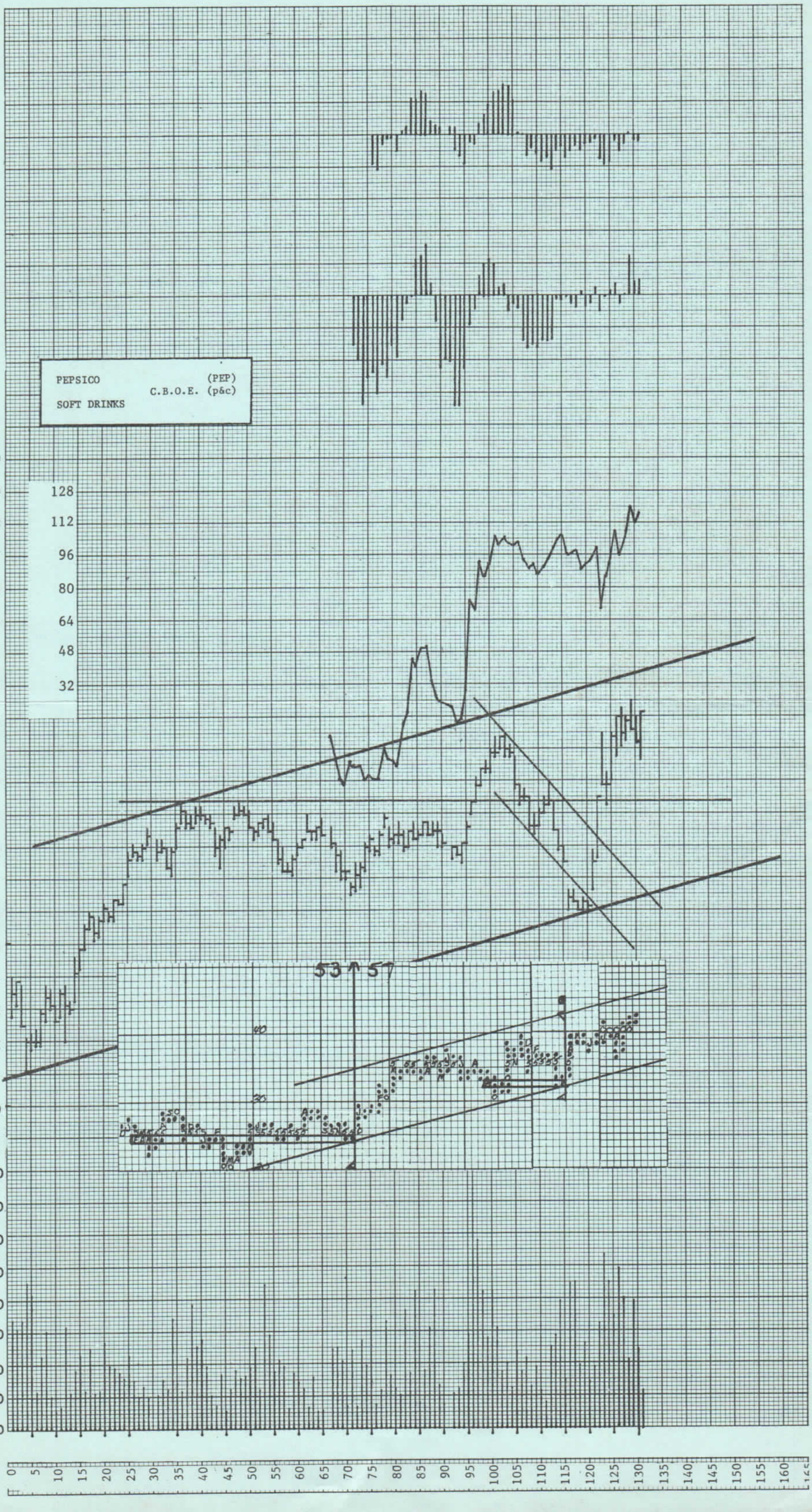


SMI
Home Office: 662 Busse Highway, Park Ridge, Il. 60068, (312) 825-5511
Marketing/Publishing/President: 715 E. Sierra Vista Dr., Phoenix, Az. 85014 (602) 248-8244



SMI

Home Office: 662 Busse Highway, Park Ridge, Il. 60068, (312) 825-5511
Marketing/Publishing/President: 715 E. Sierra Vista Dr., Phoenix, Az. 85014 (602) 248-8244



SMI Home Office: 662 Busse Highway, Park Ridge, Il. 60068, (312) 825-5511
Marketing/Publishing/President: 715 E. Sierra Vista Dr., Phoenix, Az. 85014 (602) 248-8244