

MARKET TRENDS

During the past few weeks, the market has shown progressive signs of weakening. It has also developed a potential that suggests further weakening may lie ahead. These developments have been gradually closing the door to upside progress that was thrown open by the penetration of the resistance level at the end of April. However, that door has not as yet been locked. There does appear to be one remaining opportunity for the market to regain the strength that developed following the March low, but time is running out.

On the weekly chart of the Wyckoff Wave, the penetration to the 2380 level still stands out clearly as a potential upthrust of major proportions. This is especially true after the action of the most recent week wherein the Wave completed its drop back into the middle of the range. The one questionable aspect of the action has been the volume. To help confirm the upthrust idea, it should have remained relatively high. Although the two hundred forty million shares traded last week cannot be called extremely low, it does represent a healthy contraction of about seventy million from the recent peak. Therefore, there is an element of doubt injected into the picture.

Doubt is either justified or removed by a confirmation. That is why all important actions have a means of being tested. In the case of this potential upthrust, the confirmation or lack of it will come on an important test of the initial action. Thus far that has not occurred. Therefore, the door to an upside breakout still remains open. The longer term investor, who bought in March on the market's inability to break the bottom out of the range and in the hope that something of importance was about to begin on the upside is justified in still holding those positions. For him the tone of the trading range will not truly turn negative until or unless that testing action fails to go to a new high.

The weekly chart has a tendency to make events in the market appear as a series of happenings that occur all of a sudden. Of course, the truth of the matter is that things seldom just happen. They develop over time. This is shown on the daily and intraday charts. In this case, these charts are showing a decaying picture. They suggest that although the door may still be open to upside progress as a more important test to the upthrust action is awaited, that opening is gradually being diminished.

The deterioration in the market's position can be seen in the action from the weeks of May 3 and May 10. During these two weeks, the market did attempt to rally twice. Neither was successful. The first attempt is especially disturbing because it can be seen as a minor test to the upthrust itself. The second attempt, accomplished at a somewhat lower level, appears to have confirmed the indication of the first. The result of these two failures was to finalize a down count at the top of the trading range. It is at the 2330 level and can be divided into two phases. The first has an objective of 2230 to 2240. The lower objective range is between 2130 and 2180. Both of these possible stopping places are important.

The more conservative of the possible downside objective is important because it is where the market currently is, which approximates the halfway point of the prior advance. We know that this is a natural support area. We also know that the market does not always work out all the phases of a count. Therefore, the current position could be the end of the move. This possibility is supported by the oversold condition that developed late last week.

The lower objective is important because it seems to say that even if the reaction is not stopped at present levels the trading range should still be secure. Unfortunately, there are probably very few who would see this as a blessing at this point.

How might these two objectives fit into the potentially negative indication of the weekly chart? To confirm the major upthrust possibility, it would be better if the market failed to work out the lower objective at this time. A rally off the higher objective could easily develop into an action that fulfills the need for an important test. This would also develop into a more important last point of supply. The result from this would be to broaden the down count. This is important, because it would provide the potential to break the support of the range. At present, the lowest objective does not present this possibility and it is critical to the resumption of a longer term decline.

STOCK TRENDS

As long as the market remains in a trading range, it always has two options. Depending on its position within the range one option may have a stronger hand than the other. However, until the range is broken, both options must be considered. This might seem on the surface to be the best of all possible worlds because it suggests that the trader or investor cannot go too far wrong. Unfortunately, the reality of the situation usually is that they seldom go too far right. A trading range is the most difficult market action to trade. Those who are most successful at it tend to achieve their results by locking in on one side or the other and staying there until some compelling reason to do otherwise develops or until the market throws them out of their positions.

As mentioned earlier, the longer term individual seeing the March low as the beginning of something important on the upside should still be on that side. He must, of course, be aware of what happened following the penetration to 2380, but it is in his best interest to keep his primary attention locked in on the upside until all hope is gone. Therefore, this person would be looking at the market's present position to add to positions or take new ones. He still has to be careful, however. If his idea of something important happening on the upside is near an end, positions taken now have a much smaller likelihood of working out. Thus, the need to be careful.

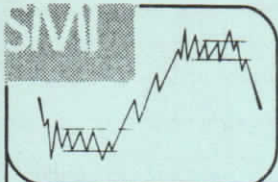
If this individual is looking in the Wave for his candidate, there are only two good possibilities. They are General Motors and I.B.M. Both issues are suggested by their relative performances compared to that of the

market and by the fact that both have remaining upside potential. General Motors has been very strong since February. It has resisted the current correction in the market quite well and is looking at an upside objective of fifty and perhaps fifty-five to fifty-nine.

I.B.M. was a primary factor in the Wave's strength following the March low. It has participated in the more recent reaction, but remains comparatively stronger. To arrive at an upside potential, it is necessary to look at the area between 57 and 65 as a new trading range of accumulation. Therefore, the low experienced on this reaction should be the last point of support and represent the count level.

For someone looking for a long position outside of the Wave, a stock like Advanced Micro Devices should be considered. Here again the reasons are strength and potential. The strength is unquestionable. It goes back to the beginning of the move in January. In addition, its continuation is indicated by the resistance to the current market reaction. This can be seen in the shallowness of the reaction and the decreasing volume. We are directed to time positions to anticipated turns in the general market. That being the case, now should be the time to act in this stock. If the market is successful in making a breakout, AMD can go to the 32 to 36 range. If the market fails, the relative strength in the stock should carry it far enough to insure a full return of all funds committed.

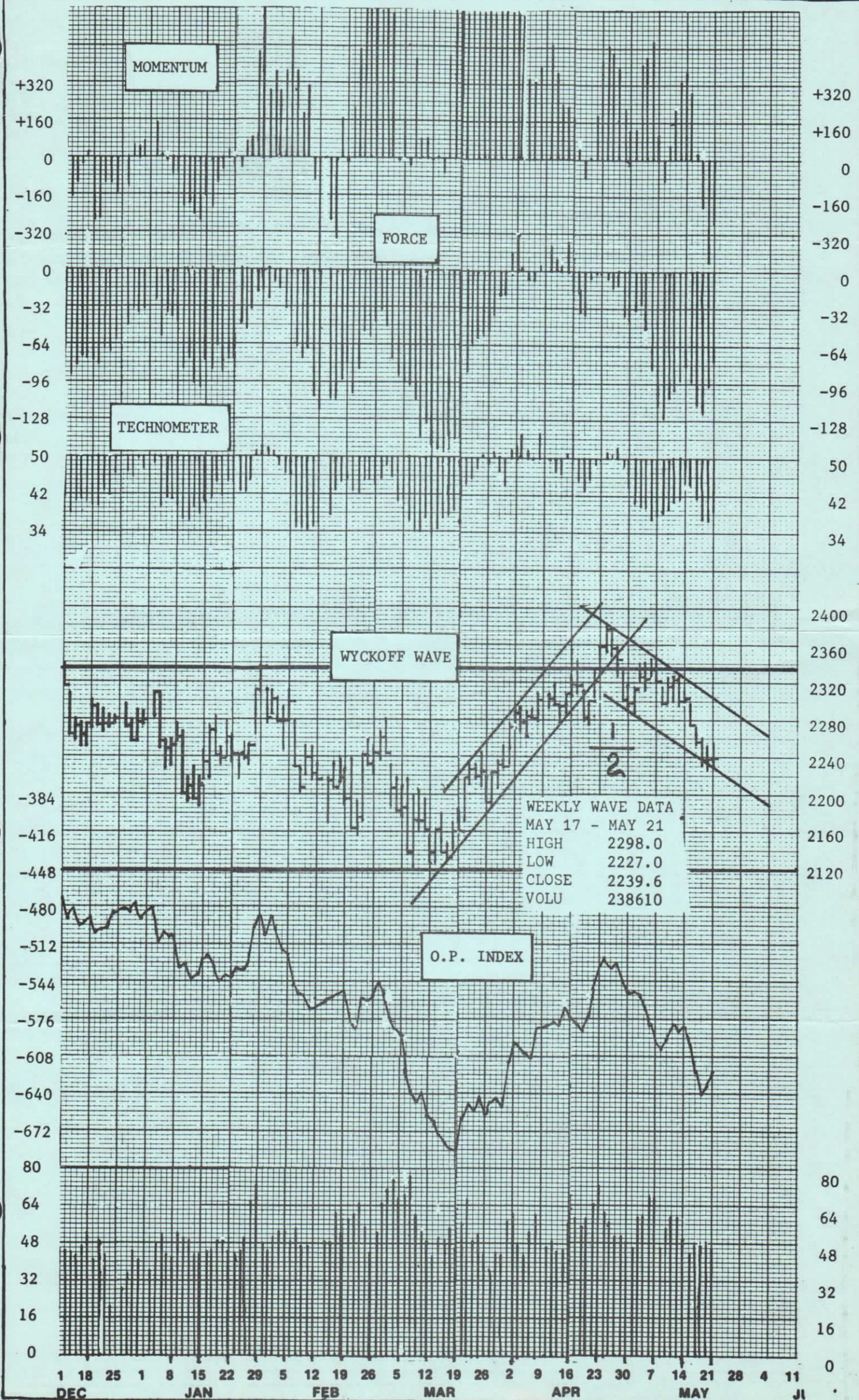
Those who are looking on the market's recent action at the top of the trading range as negative and who may already be short because of it, should do nothing at this point. Their action was based on the possibility that something important is about to begin on the downside. They should at least stay with their positions until the initial conclusion has a chance to be tested. However, anyone not already short should certainly not take action on that side at this time. The market has just been oversold. Selling it short at this point would be premature. Potential short sellers need to be patient a little longer. Stocks such as Merrill Lynch and Pittston are potential short candidates should the market successfully test the upthrust action.

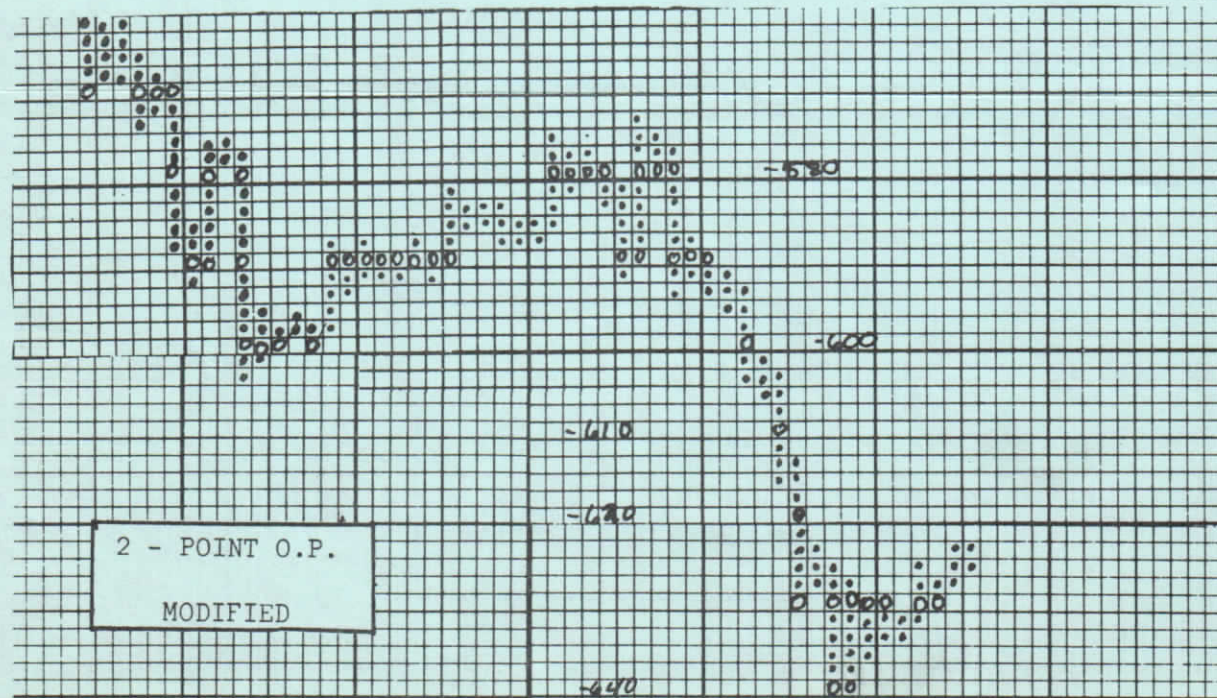
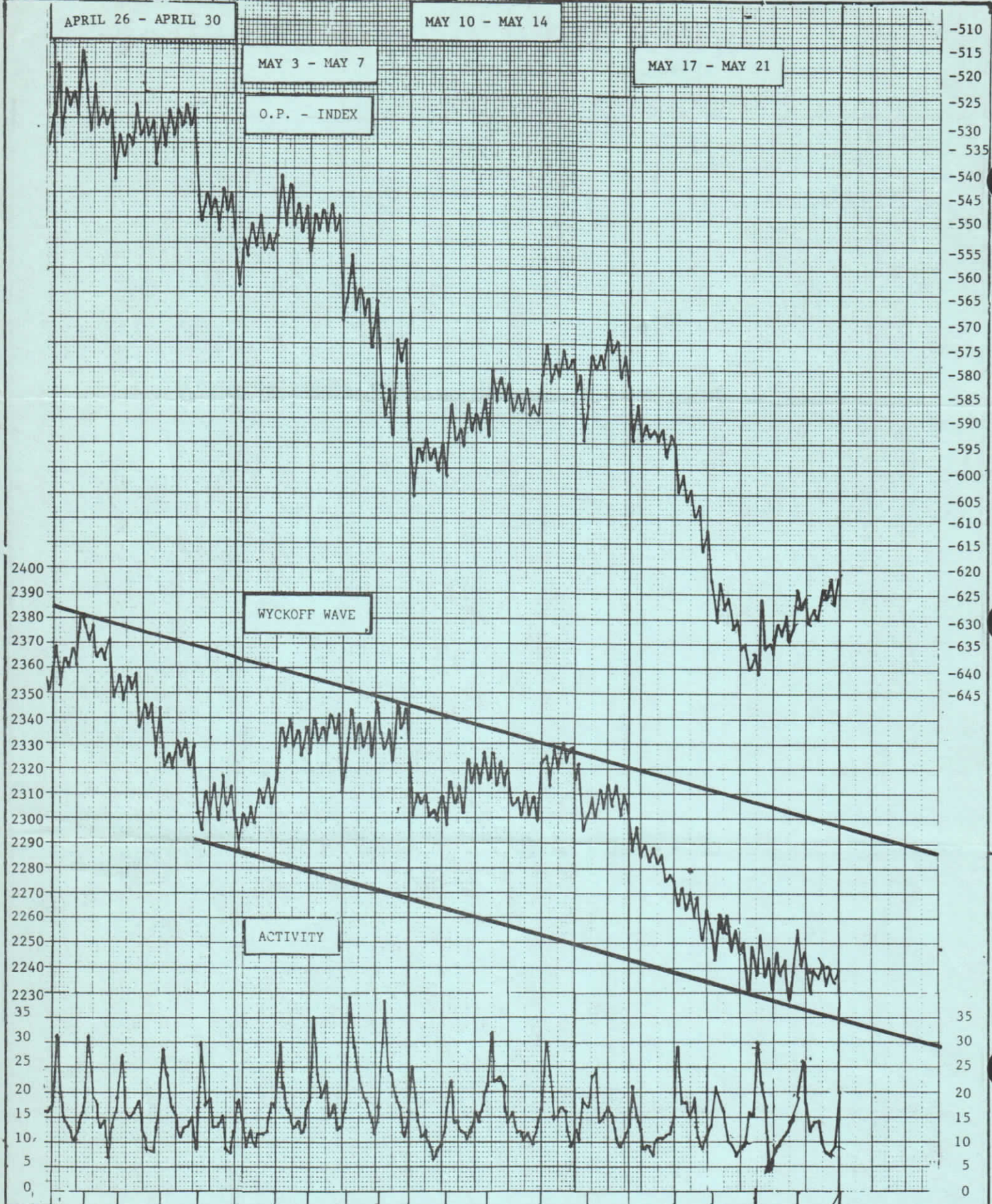


The Pulse of the Market

STOCK MARKET INSTITUTE

FRIDAY MAY 21, 1982







INDEX CHARTS

STOCK MARKET INSTITUTE, INC.

MAY 19, 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:

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