STOCK MARKET INSTITUTE
Founded in 1931
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TRENDS AND TRADING RANGES

Tuesday, May 10, 1983

On Friday, May 6, the stock market accomplished something very important. The headlines tell us that this was the fact that the market ended the week higher than it had ended any other week in history. This is, of course, news, which is why it makes the headlines. However, the latest in a lengthening string of new highs is not the accomplishment to which reference is being made. Rather, it is the fact that the market has entered a very important upside objective range. The reason this is so important is not that it is telling us that all long positions should now be hastily eliminated. The reaching of this objective range should only serve as a warning that a change is about to take place. This does not mean that the change has to be from something positive to something negative. It is equally possible that the change will be to something neutral, or to something positive but in a different way from that which has occurred recently. At this point, it is not possible to determine what the character of the change will be. Although it would be helpful to know this in advance, such knowledge is not necessary to successfully deal with the situation. At this point, the warning is sufficient. It tells us to be alert and cautious.

The objective range that the market has just entered is not a new development. It was set in place back in January and confirmed most recently in April. The twenty-five and fifty point figure charts show us the indication from January. It is taken at the 3100 level and points to the area from 3950 to 4150. Friday's high of 3998 is well within this range. This may prove to be the top of the move, or at least this phase of the advance. The confirmation that an important objective range has been met comes from both the twenty-five point figure chart and the ten point chart. The twenty-five point chart shows a secondary build up at 3500 with an objective of 3900 to 3975. A more recent build up on the ten point chart at 3820 points to a possible high in the 4130 to 4160 area. Although the objectives more recently established are different from each other, they both confirm the previously established indication. This adds credibility to the idea that a top or the top of the advance is in this area.

If we are near a top, how will we know for sure when it has been reached? The answer to this question is when we see signs of preliminary supply and then a buying climax. The resistance to upside progress demonstrated prior to last week and the attempt to move lower early last week are potentially indications of preliminary supply. If so, we should now be anticipating a rush up to the climax itself. We are already seeing a substantially higher level of volume, which is an important part of the climaxing process. It may be the most important part. What we do not see, however, is that one day of price action or those few days that clearly stand out as being the classic climax.

When the classic price action of a buying climax comes, it should be obvious. It is the character of climaxes to make their presence known. However, in order to get a classic move, most of the stocks need to be moving together. If they are not, the top of the move may be a more gradual move into a new trading range. This is what happened in November and December. The prior momentum of the advance was broken as the market entered a period of more horizontal movement, but there was no climax. The market simply went into a trading range and since there was still a significant amount of strength in many stocks, the resulting range had an upward slant. At this time, there is also a thorough mix of stocks. Some that have been leaders all along have used up all available count. Others, however, still have higher objectives and in some cases these objectives are substantially higher. These facts work against the development of a classic climax.

The quiet entry into a new trading range is not reason for panic. It may not be reason to do anything. In this case, the determining factor has to be the action of the stock. Stocks that have exhausted their upside potentials and broken important demand lines should be sold. If the market is in a trading range, it is because some stocks are weaker. Those that have no remaining count and that have broken their uptrends are the most likely to be the weaker stocks. Therefore, they are candidates for sale.

What to do with all those stocks that are not obviously candidates to be sold is a bit more difficult to determine. The most important thing to remember, however, is that the market has a strong bias to the upside. It is after all in a major uptrend. Therefore, if a long position has any possibility of producing more positive results it should be held. A good example are stocks that have apparently used up their counts but remain within well defined uptrend channels. It is possible that additional action within the trend channel will result in the build up of a new potential, which can serve as the basis for a resumption of upside progress.

A stock that has a previously established higher objective, but which has seen its uptrend erode away is in a somewhat more precarious position, but is not necessarily an automatic sale, especially if there is a strong upside bias in the general market. The important thing here is to watch the price volume relationship of the trading range action that has replaced the previous uptrend channel. If it is positive, stay with the stock for as long as the positive character remains.

The best stocks are those whose uptrends are still intact and which have higher objectives. If the market moves into a trading range, some stocks are going to continue to make progress on the upside. The stocks with potential and good uptrends are the ones most likely to continue moving up and should be held.

Finally, there is the matter of new positions in an environment like this. They cannot be ruled out, but must be approached cautiously. They should only be considered on the short side in those stocks that are in the obvious sell category. They should only be considered on the long side in the obvious hold category. Either way, action should only be taken when a stock is in one of the primary trading positions. This should be done to hold the risk to an absolute minimum.

Group Analysis

The above suggestions on what to do with stocks in various situations can also be applied to the industry groups. It is possible that the application to the groups is likely to be easier than to the stocks. This is because by their nature the groups tend to exaggerate developments.

As of the next to the last day posted on its chart, the aerospace group is in a minor spring position. This makes it a potential candidate for action on the long side. However, it must be noted that the overbought line of the uptrend is very near. Every time this line has been challenged, it has held. This was even true the last time a rally resulted from a spring position. There is no reason to believe that anything will be different this time. Therefore, holding this group makes sense buy buying it should be done very selectively.

There has been a great deal of interest in transportation stocks in recent days and the airline group has prospered accordingly. However, it has not been enough to break the group loose from the trading range that has contained its action since last November. This is a problem. If it is anticipated that the general market is going to enter a trading range and a particular group is already in a trading range, what is likely to provide the momentum to push that group out of its trading range? The answer is not much. Therefore, this group is not likely to offer much in the way of good buying opportunities.

The auto group is very strong and should be held in spite of the fact that the most recent buildup of upside potential has been exhausted. This is because the incredible strength in the group may do no more than give way to a new area of accumulation.

The constructive action of the banking group was noted on its halfway correction. It still appears to be constructive. This is due to the well defined and respected uptrend. The position within the trend is such that new action on the long side might be considered on a low volume reaction. Also positive is the fact that on a recent attempt to drop back below the important resistance level the volume dried up rapidly and the price was immediately supported. It would be wise to allow for some further buildup of new potential before taking any new long positions, but present positions may be held.

The building materials group appears to be in some trouble. This can be seen in the decreasing ability to make new progress on recent rallies. Notice that the distance by which the group is falling short of the overbought line is increasing. There is no need to liquidate present long positions as yet because the trend is up. As long as that is true, there remains a possibility that upside progress will be resumed. However, the action within the trend channel does not indicate that this is a strong likelihood, so new positions should be avoided for now.

The chemicals are in a very impressive uptrend. They have broken through all obstacles to upside progress. Therefore, as long as the uptrend remains intact, the group should be considered a potential long candidate. This assumes, however, that the position within the trend channel is one that favors a commitment. At this point, such a position does not exist. As a result, the group should be looked at as a hold and not a new buy at this time.

The computer group is in a strong uptrend. In addition, it appears to be working its way toward a position where new action on the long side may be in order. It should be noted that the index was in a spring position in early April. This was tested toward the end of the month, but on substantially higher volume. This increases the chances of an additional test. If it comes on lower volume, it should be possible to consider new positions. Positions already established should be held.

Potential problems appear to be developing in the diversified group. The uptrend is on the verge of being broken. In addition, the index has recently been in an upthrust position and is now reacting out of that without experiencing any noticeable decline in volume. If the upthrust is tested and cannot break above the top of the trading range, consideration should be given to closing out positions in this area.

In order for the market to hold on to a trading range once one is formed, some sectors will have to remain strong. A likely candidate for this is the drug group. It has recently broken out of a trading range and has a significant amount of potential left. The present position in the uptrend does not favor any new action on the long side, but holding positions already in place does make sense. It also makes sense to watch for a reduced volume halfway correction of the most recent rally as presenting a possible buying opportunity.

The electronics group has a very diverse composition. Therefore, the actions of the various stocks in the group are likely to vary greatly one from another and from that of the index. Taken as a group, the electronics stocks are substantially weaker than the market. Their ability to rally from the April lows has lagged well behind that of stocks in general. Due to these clear signs of relative weakness, no new action should be taken on the long side in this area. If the group remains unable to recover more than half of the loss from the previous reaction, long positions should be evaluated for possible sale.

From a shorter term perspective, the gold stocks are interesting for the long side providing they can be bought on a lower volume reaction back to the demand line. It is possible that shorter term positions may be convertible to longer term positions, but this will require a jump across the creek. At this point, there are no signs of such an action or that one is about to occur.

If the banking group looks positive, it is normally the case that the insurance group also looks positive. That is indeed true currently. This group recently defined a new uptrend when it went into a spring position. Since then there has been a good initial response and a constructive correction. There are higher objectives for this group, so positions already in place should be held. New ones may be considered as continued respect is shown to the uptrend on reactions.

The machinery group is still in a mild uptrend of a longer term nature. Therefore, there is reason to hold positions previously taken. New positions are questionable, however. The amount of new progress made by the second and third thrusts of the advance has been minimal. The group may be one that is going to lead the market into a new trading range.

The medical group should be considered a definite hold for the longer term and a possible new buy on reactions. This depends on how well the group holds in the face of a correction in the general market. The reason this is important is that the group has gotten a bit weaker than the market very recently. We need to have some reason for confidence that this is only a momentary development before any new buying is done. The confidence can come if the group is able to continue holding in the face of a reaction in the general market.

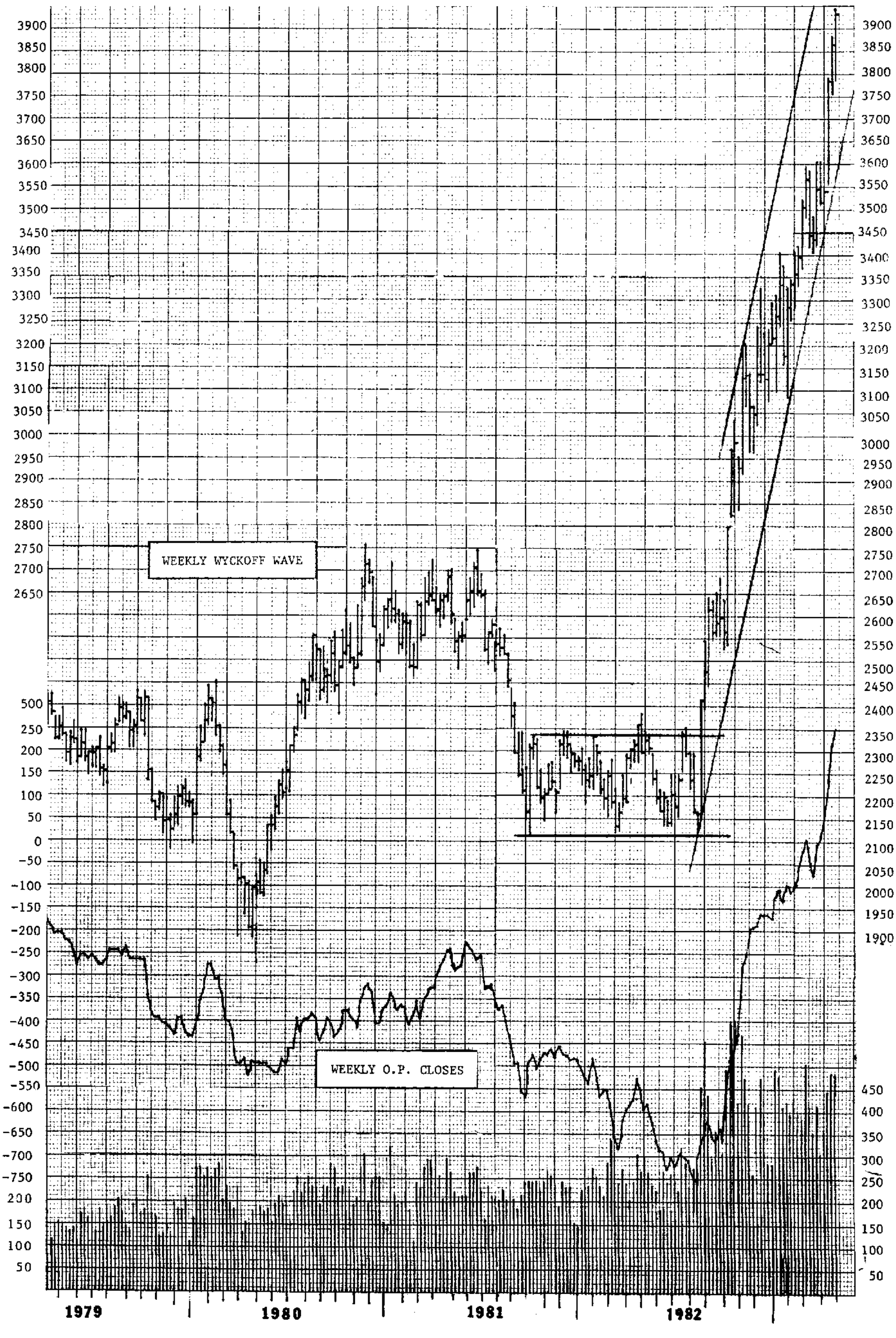
The metals group is approaching a point where it may be revealed as a good sell candidate. It has decisively broken its uptrend and appears to be defining a new trading range. Failure to breakout above the former high on this rally will confirm the trading range. The creation of a new range does not insure that the next move will be down, but it gives no indication that it is going to be up either. Therefore, rather than run the risk that is involved in waiting for what may be a long time, it makes more sense to step aside and wait from a neutral stance.

INDEX CHARTS
STOCK MARKET INSTITUTE, INC.

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
- 50-Point Modified Wyckoff Wave
- 25-Point Modified Wyckoff Wave
- 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

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.



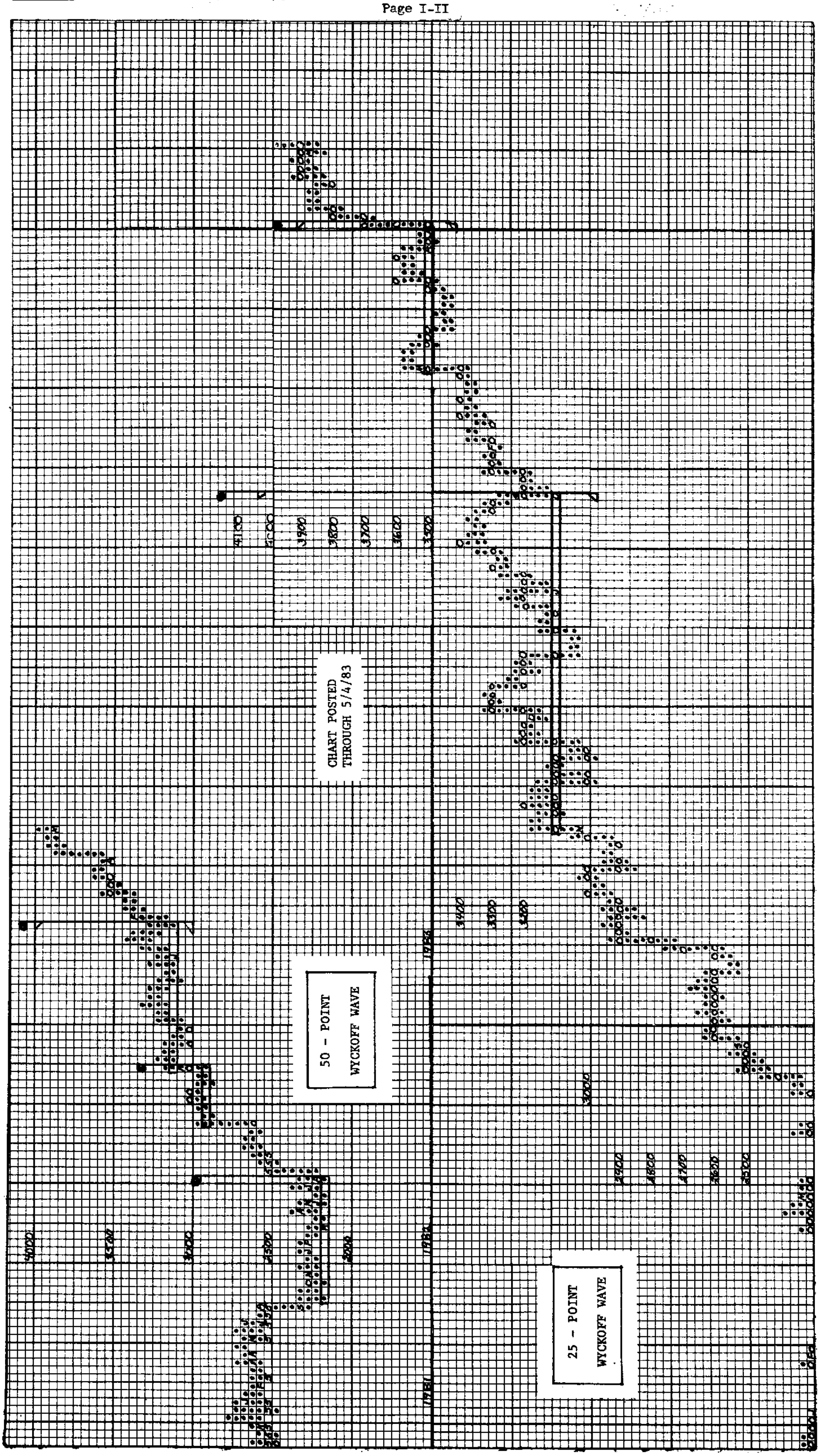


CHART POSTED
THROUGH 5/4/83
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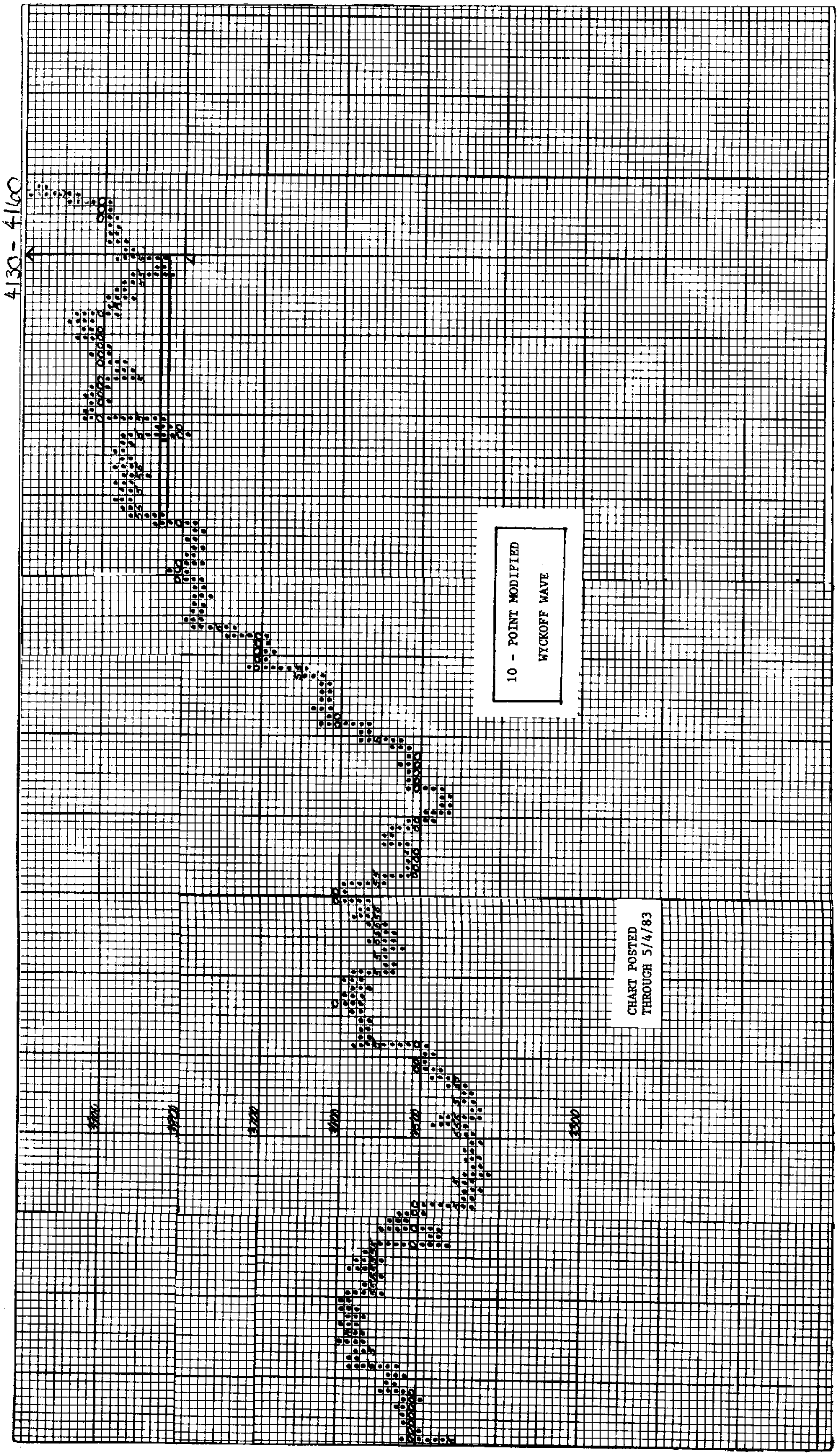
WYCKOFF WAVE
25 - POINT
WYCKOFF WAVE

SMI **INDEX CHARTS**

Stock Market Institute, Inc.



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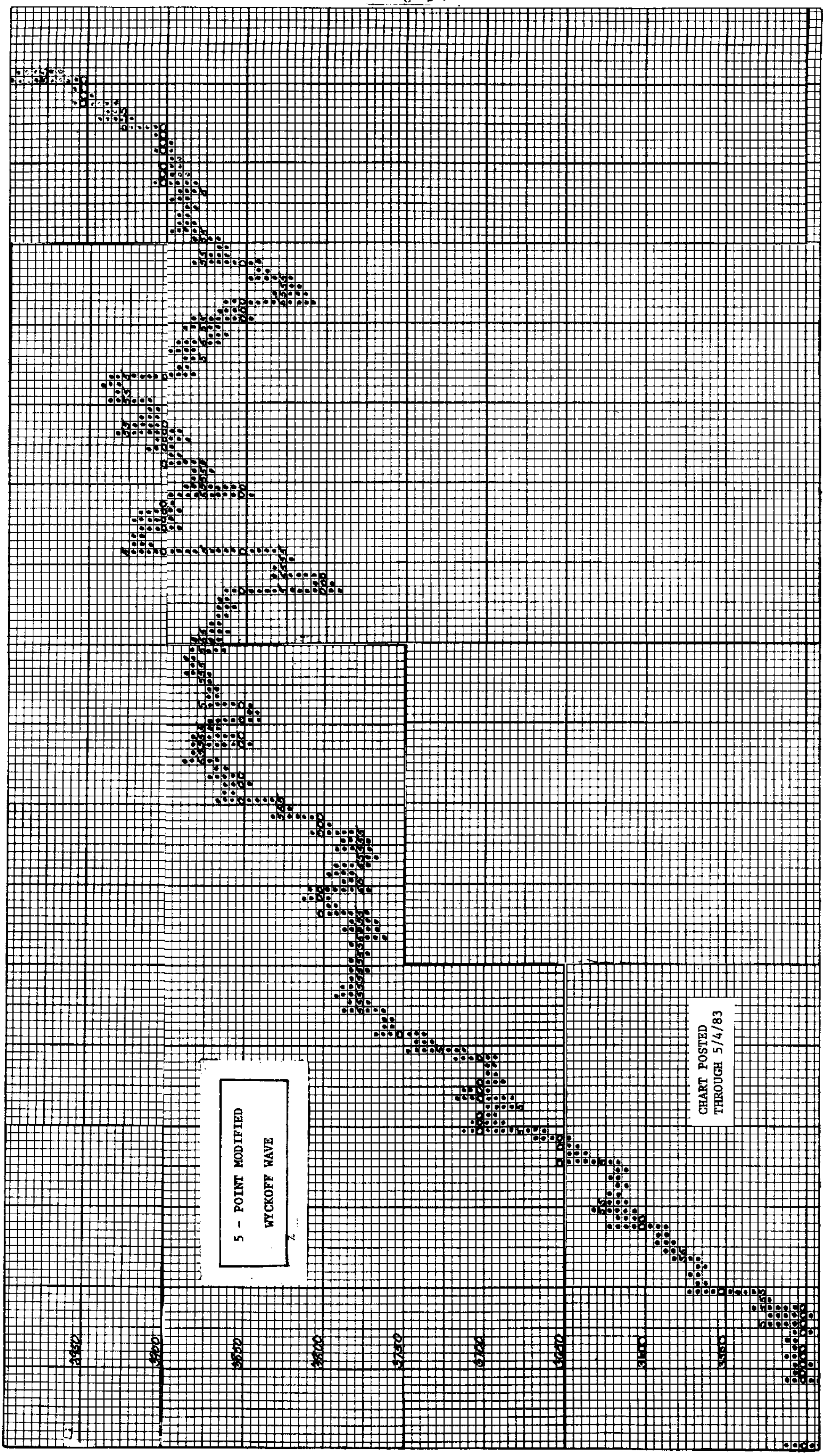

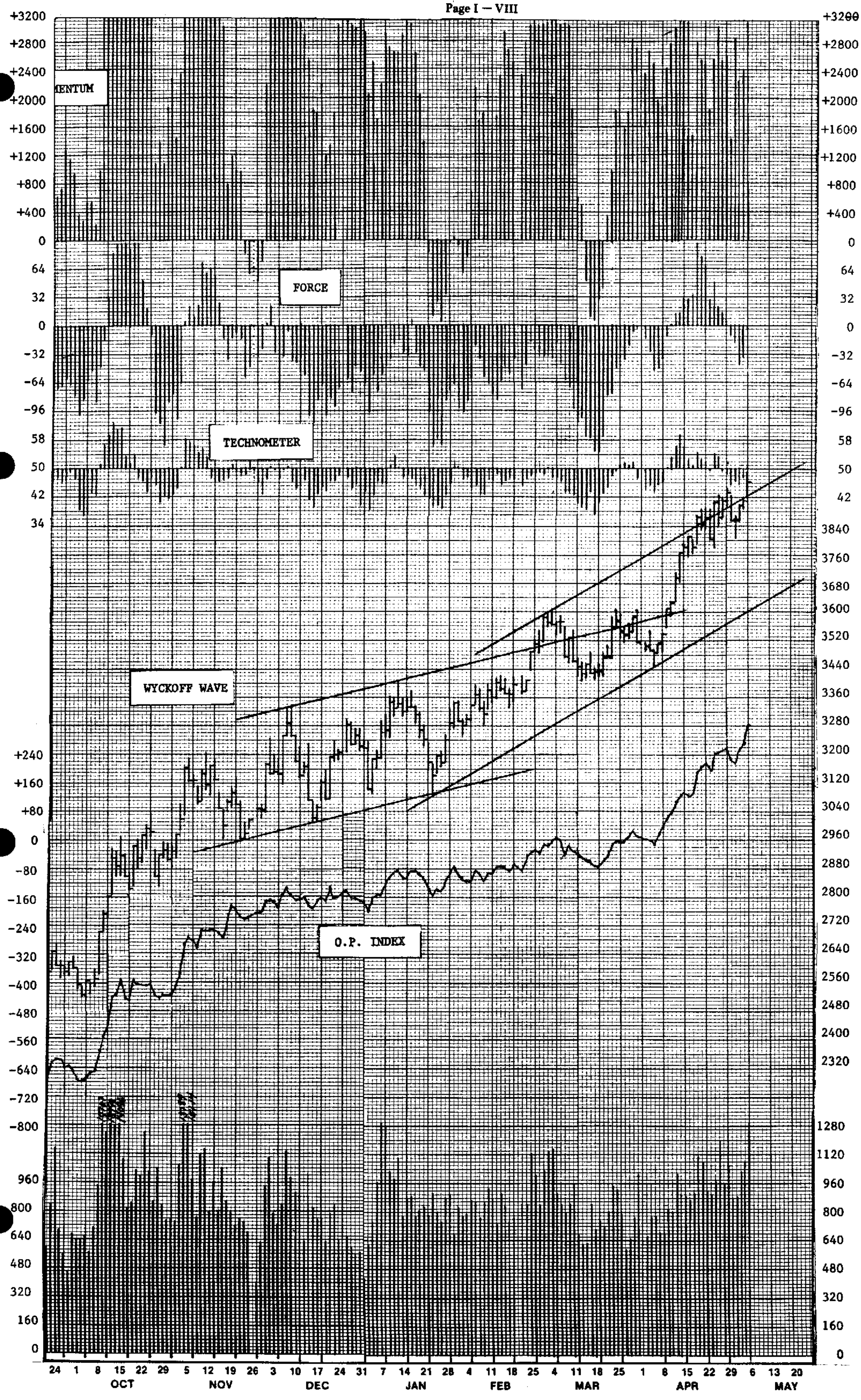
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TECHNOMETER
WYCKOFF WAVE
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INDEX CHARTS

Stock Market Institute, Inc.

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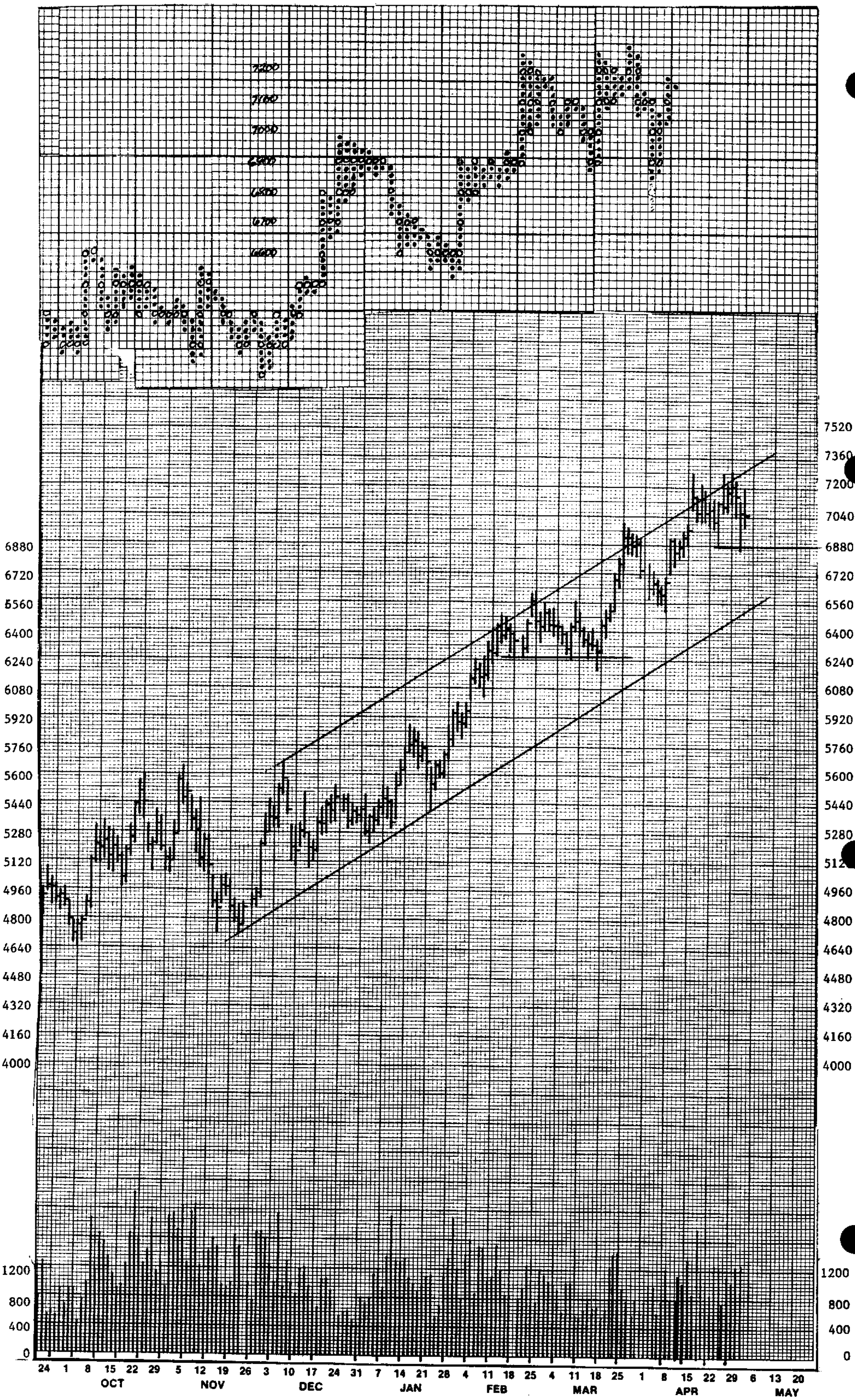

INDEX CHARTS

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AIRLINE GROUP
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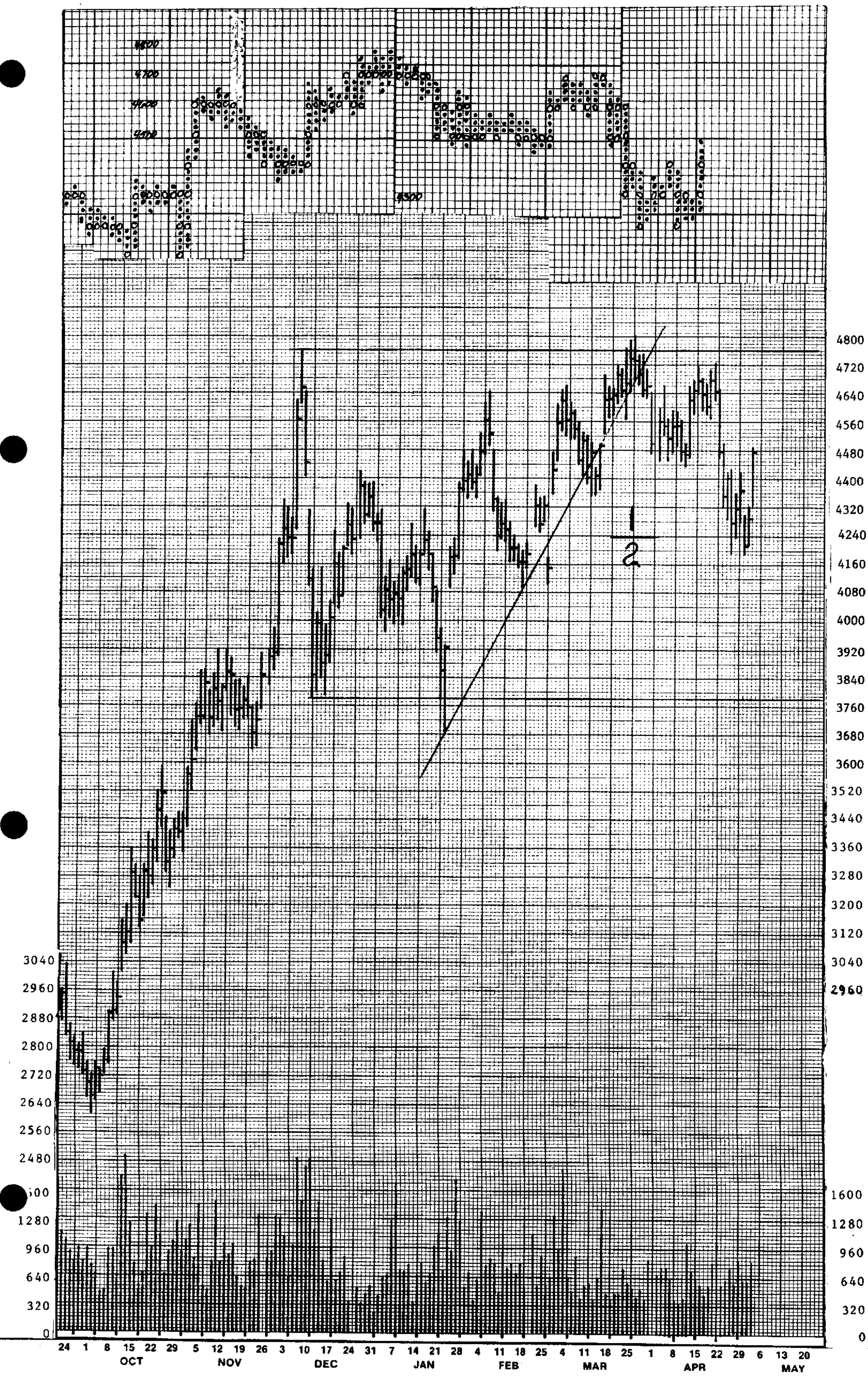

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AUTO GROUP
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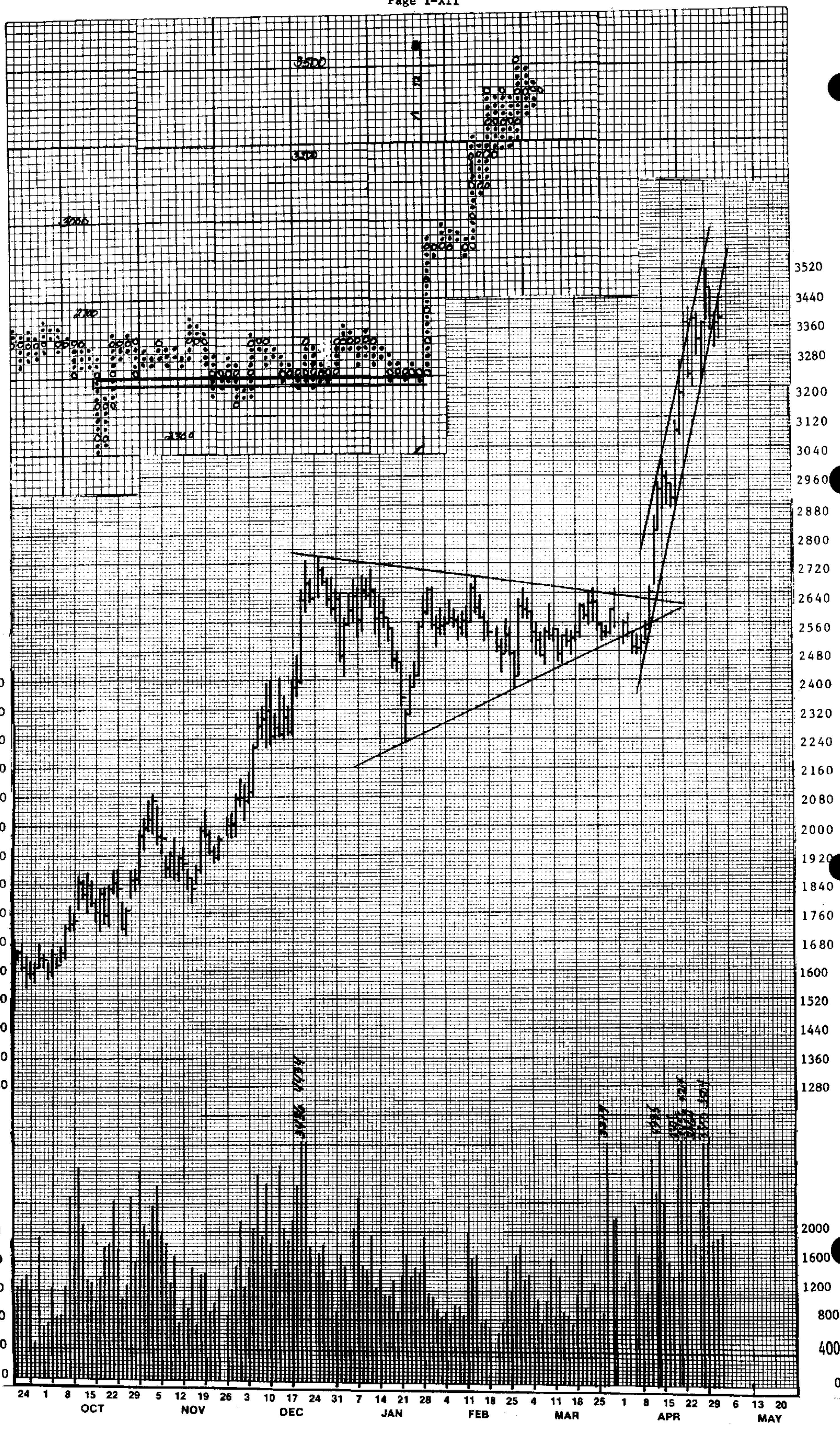

INDEX CHARTS

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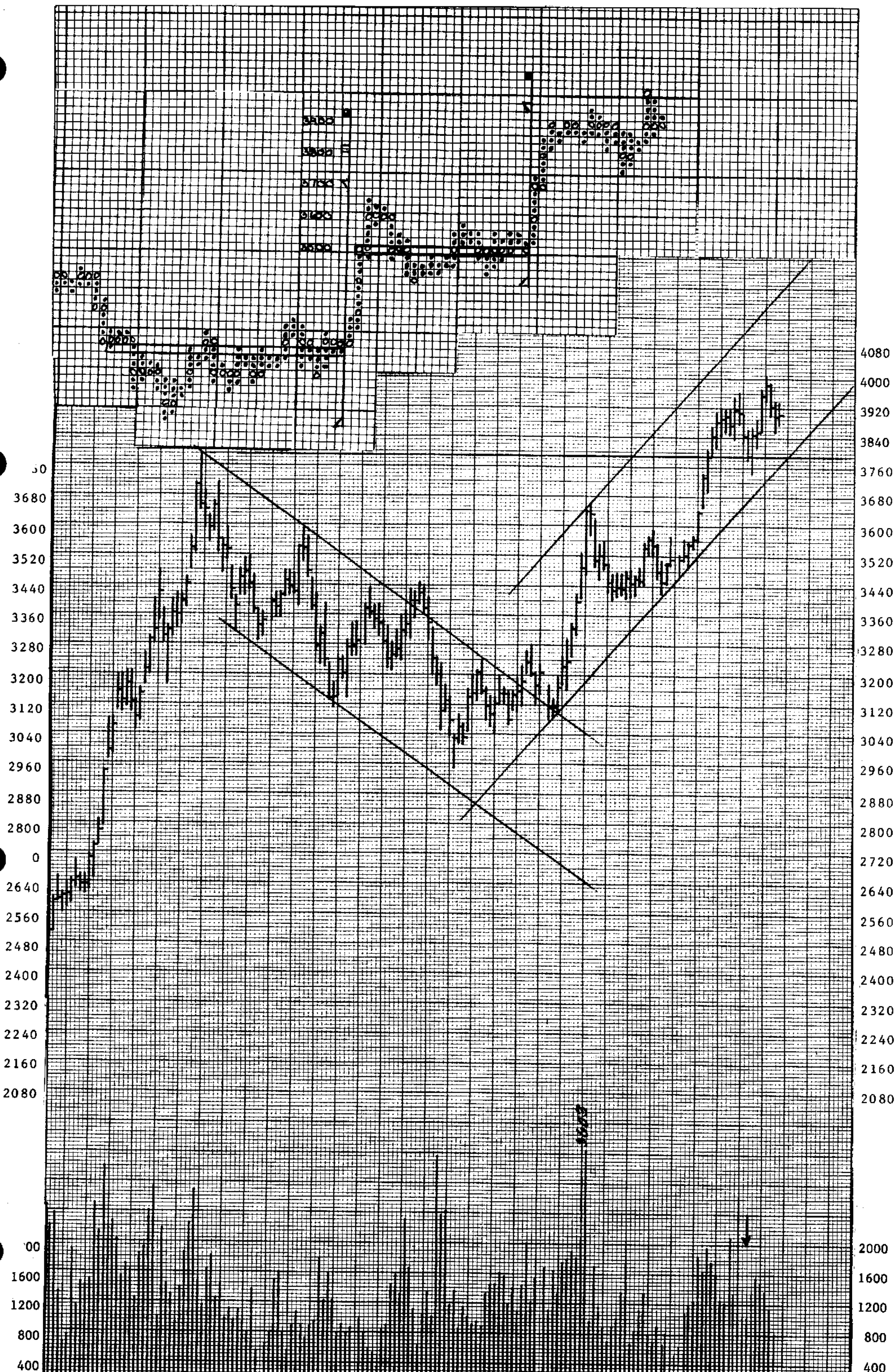

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BUILDING MATERIALS GROUP
7(2GP+2BCC+2JWC+3.5PL+3WY)

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INDEX CHARTS

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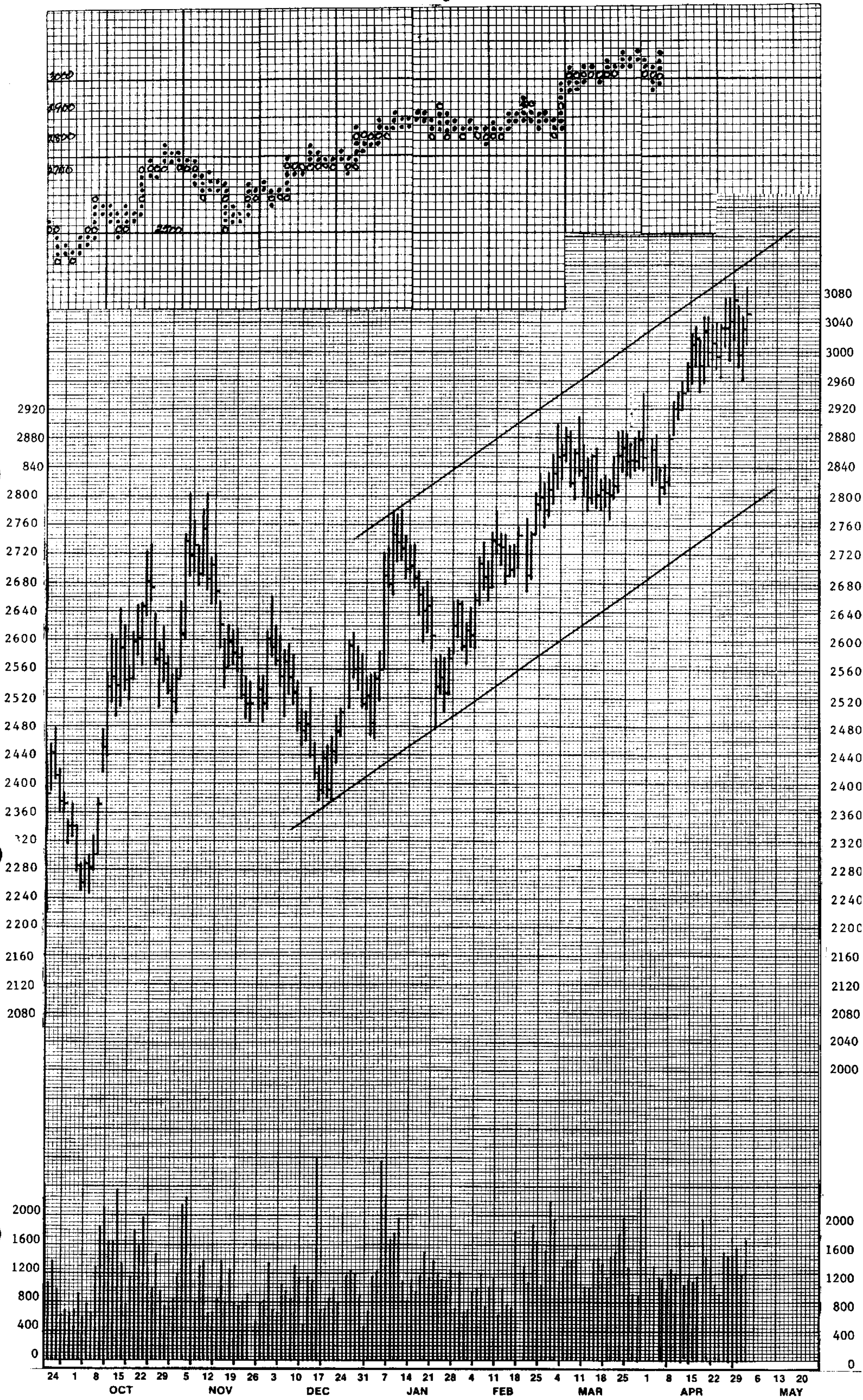
CHEMICAL GROUP
2(6ALD+9DOW+6DD+6PG+5UK)



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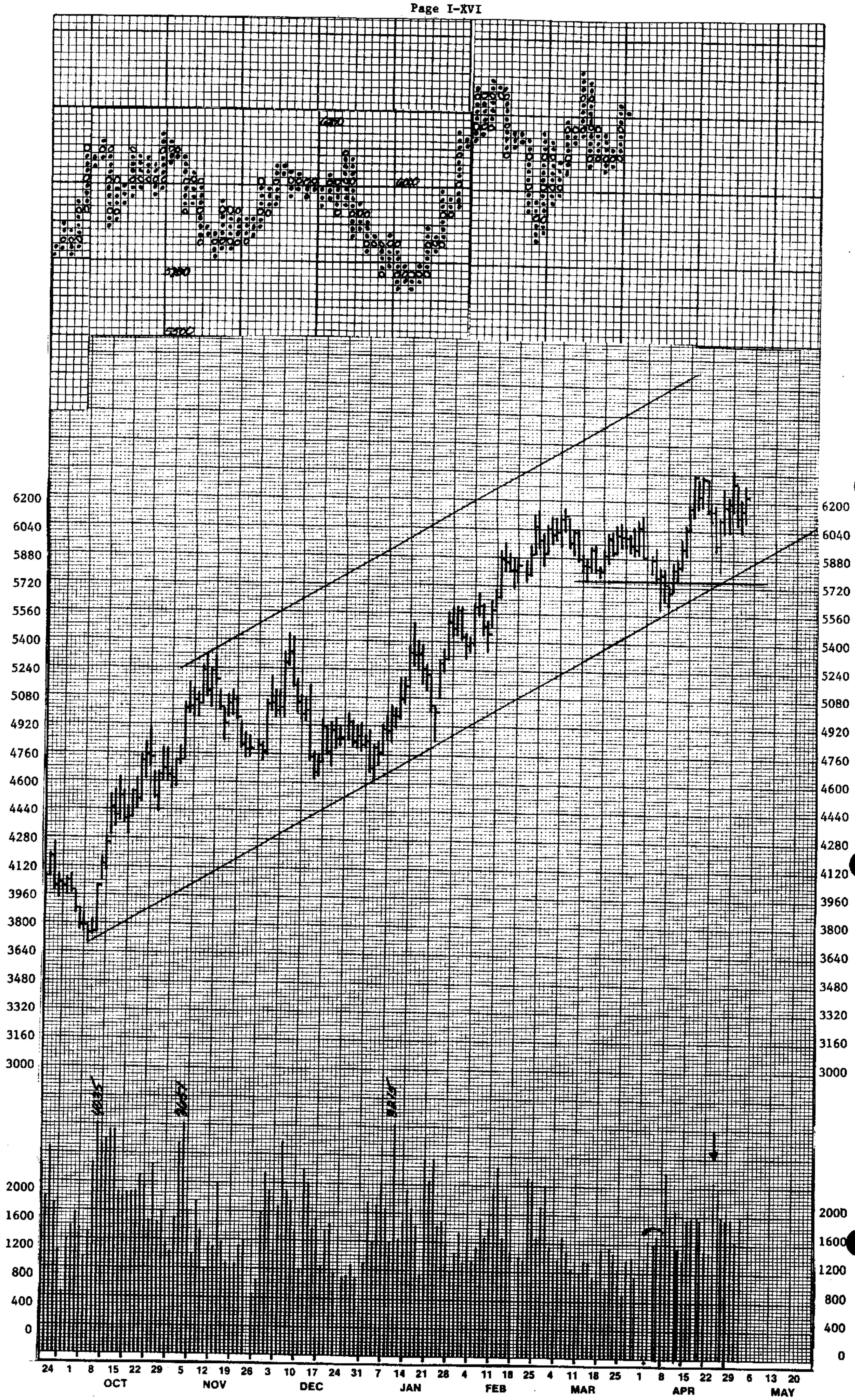

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DIVERSIFIED GROUP
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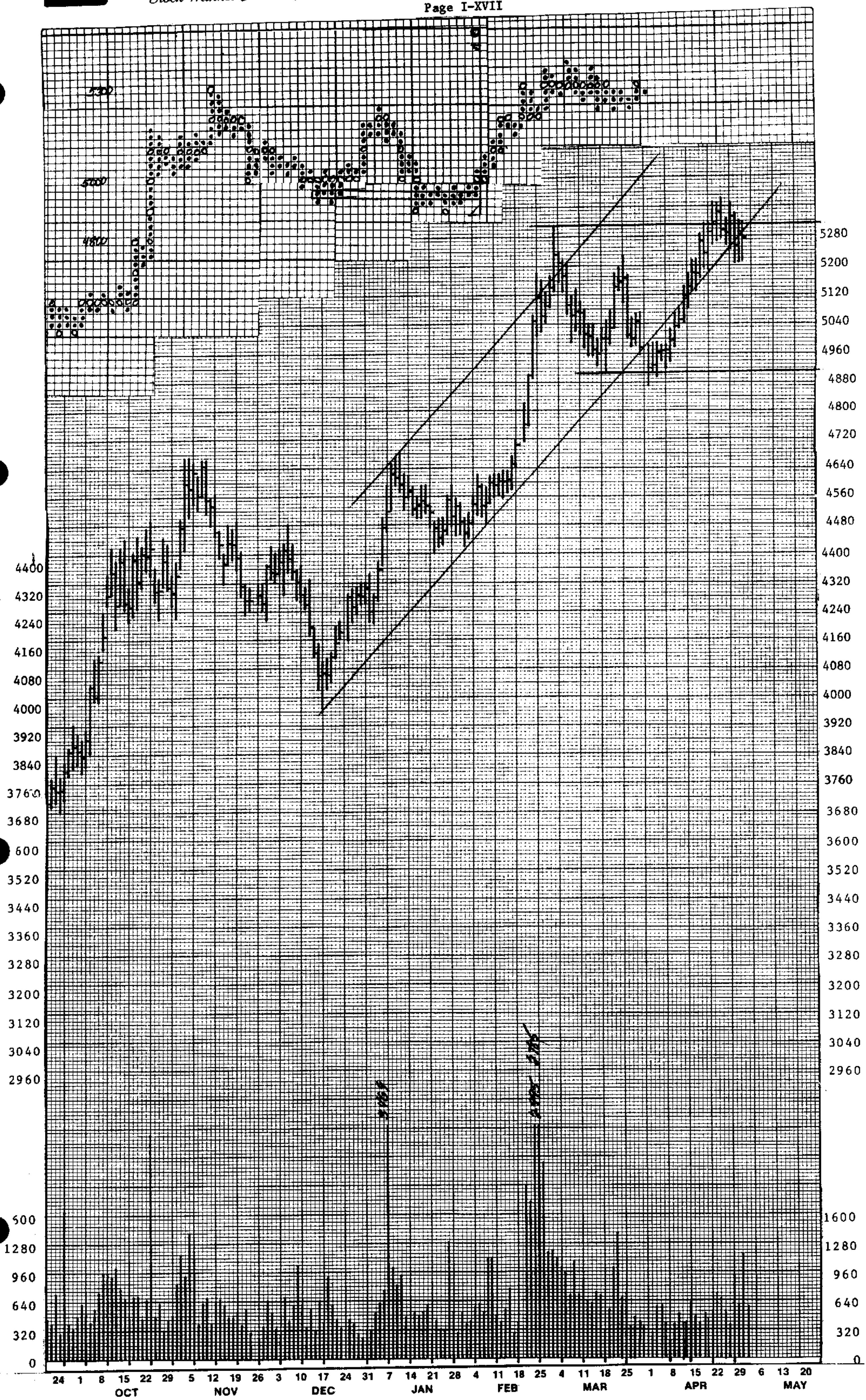

INDEX CHARTS

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DRUG GROUP
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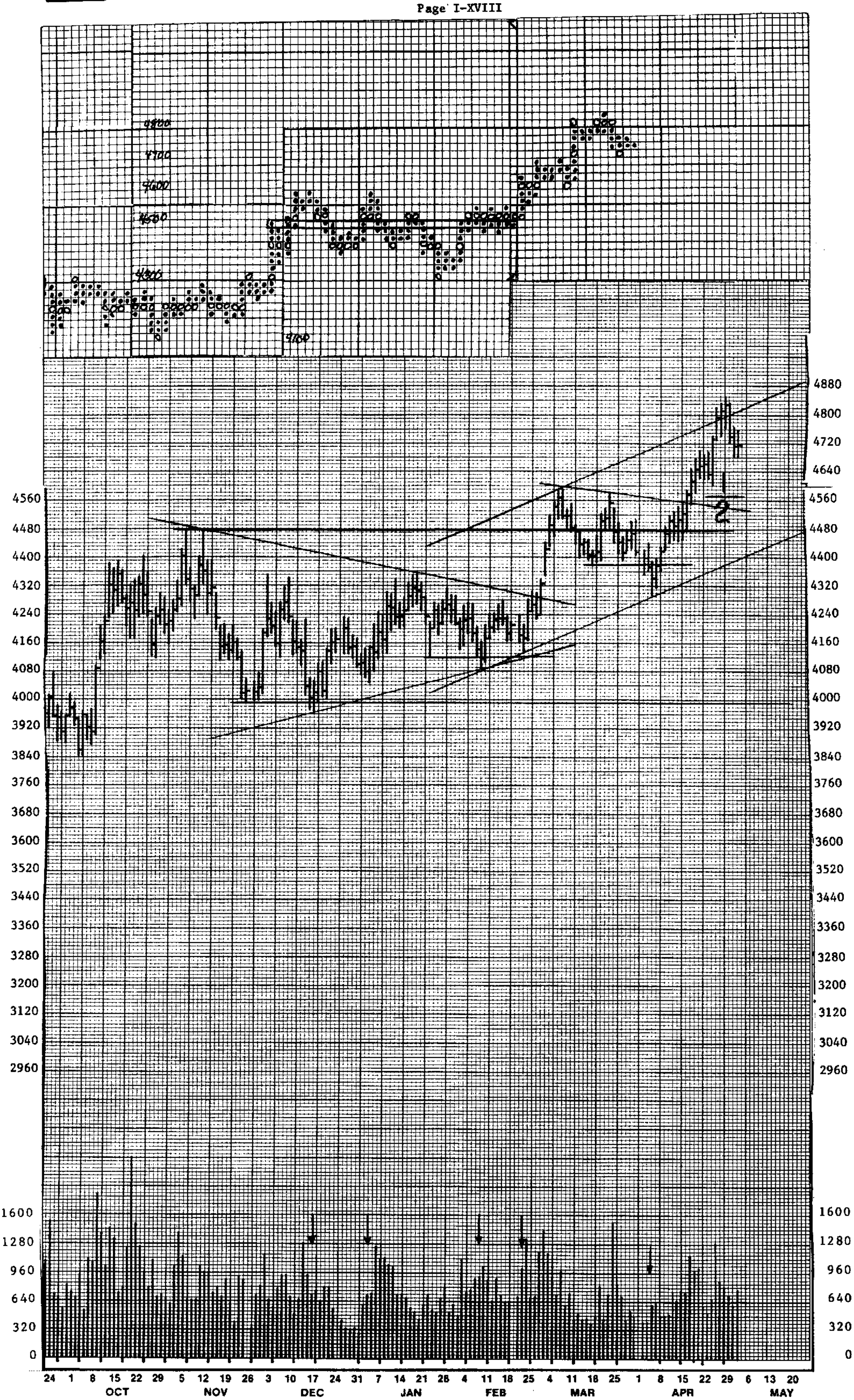

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ELECTRONIC GROUP
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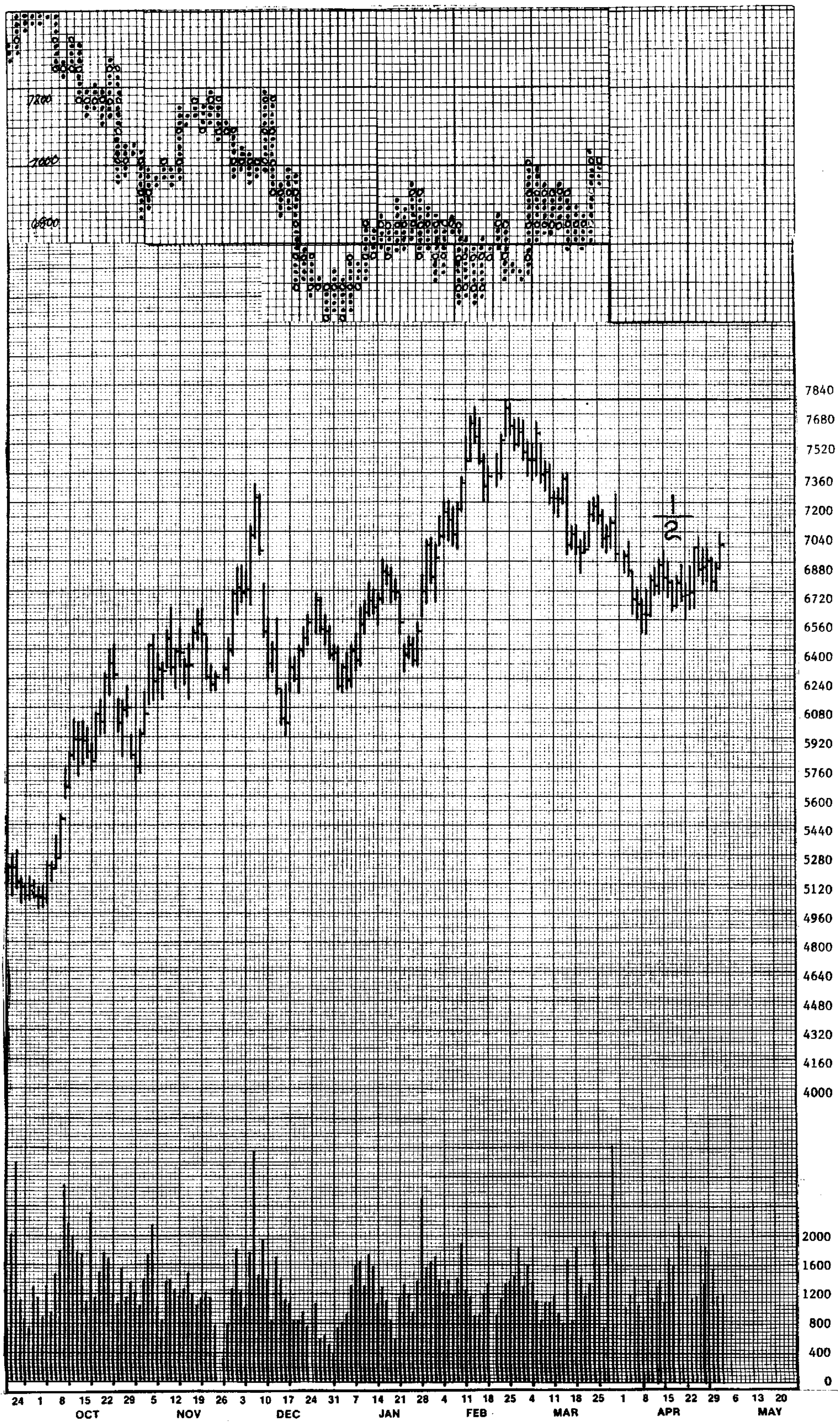

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GOLD & SILVER GROUP
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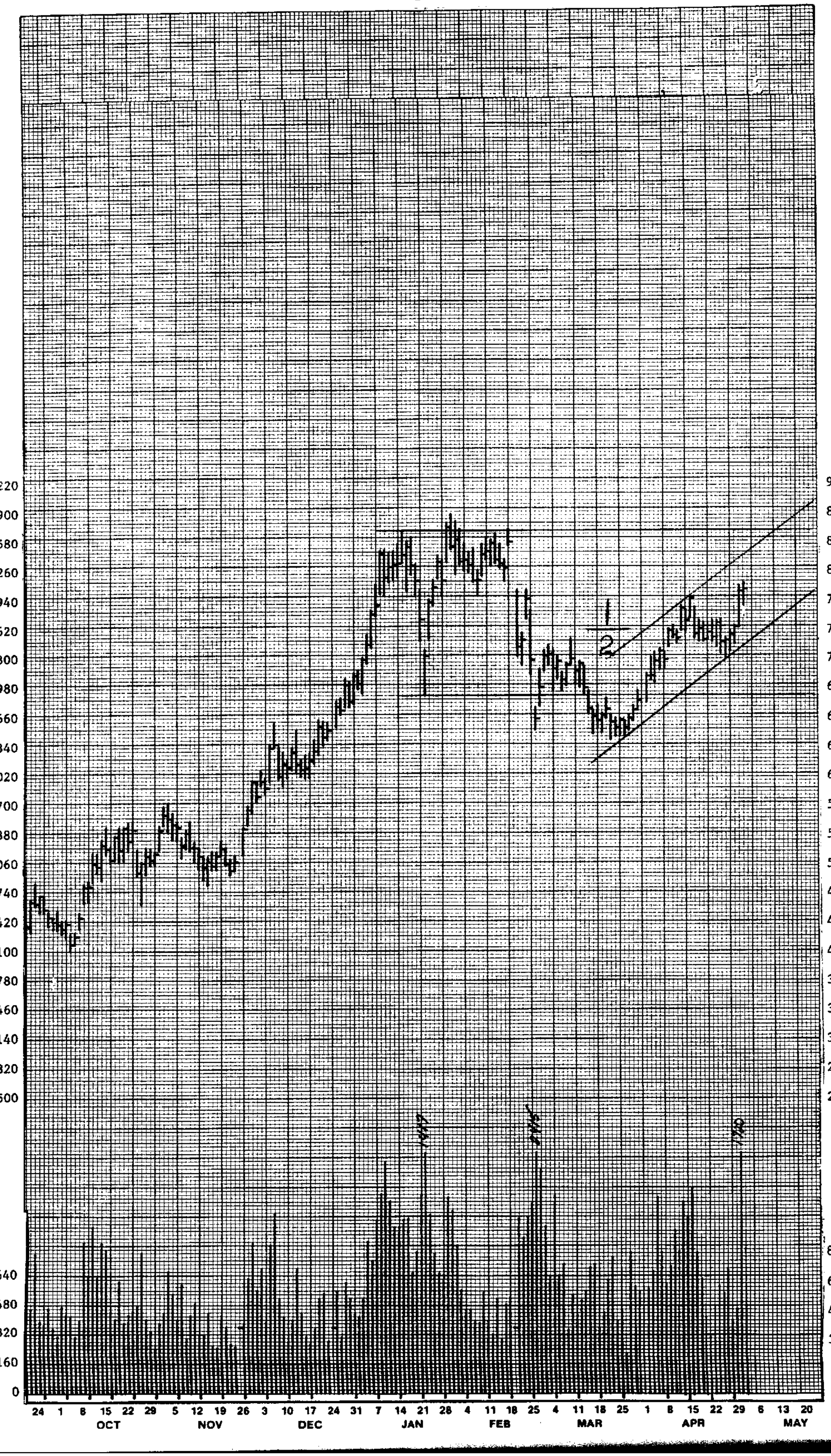

INDEX CHARTS

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INSURANCE GROUP
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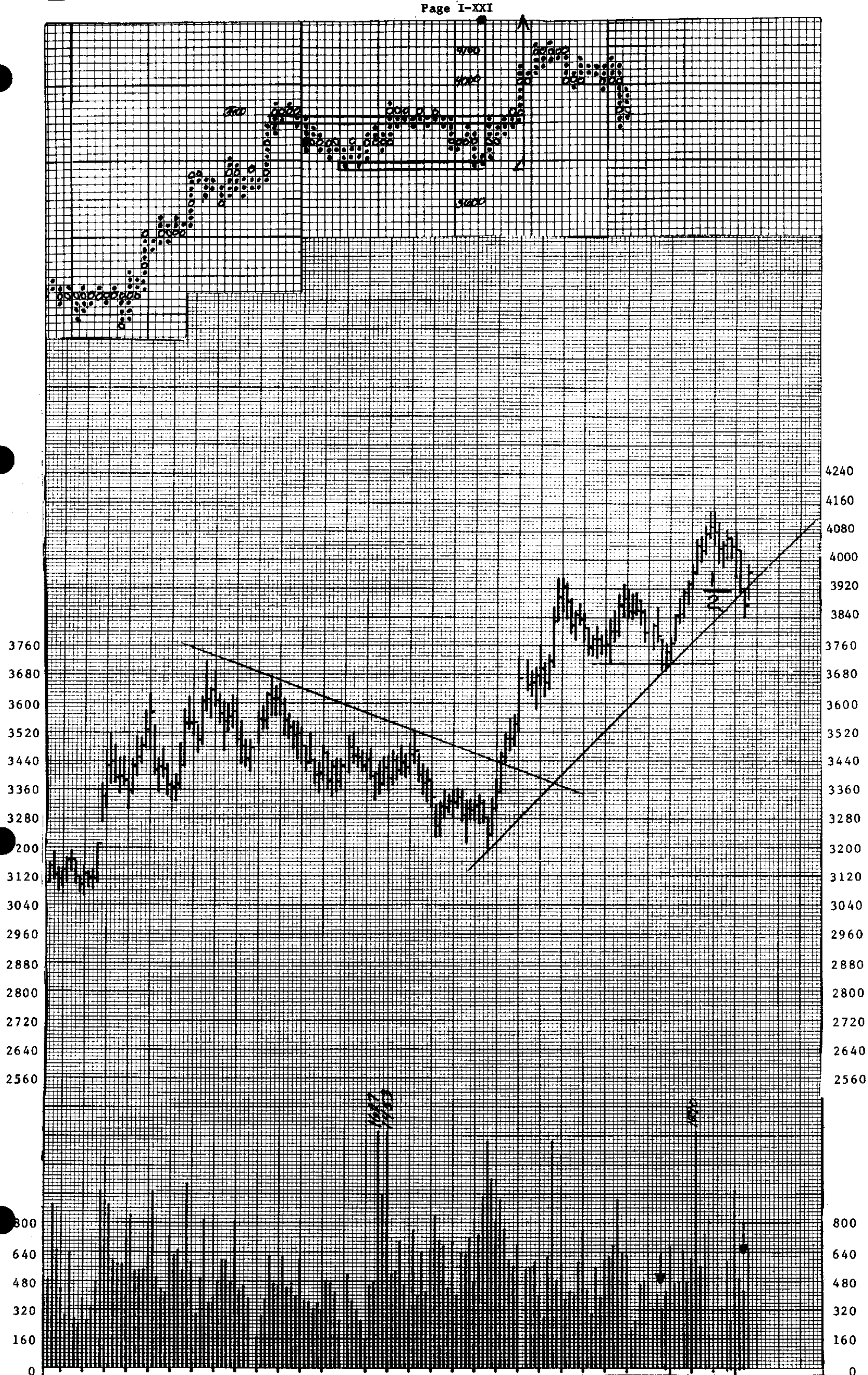

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MACHINERY GROUP
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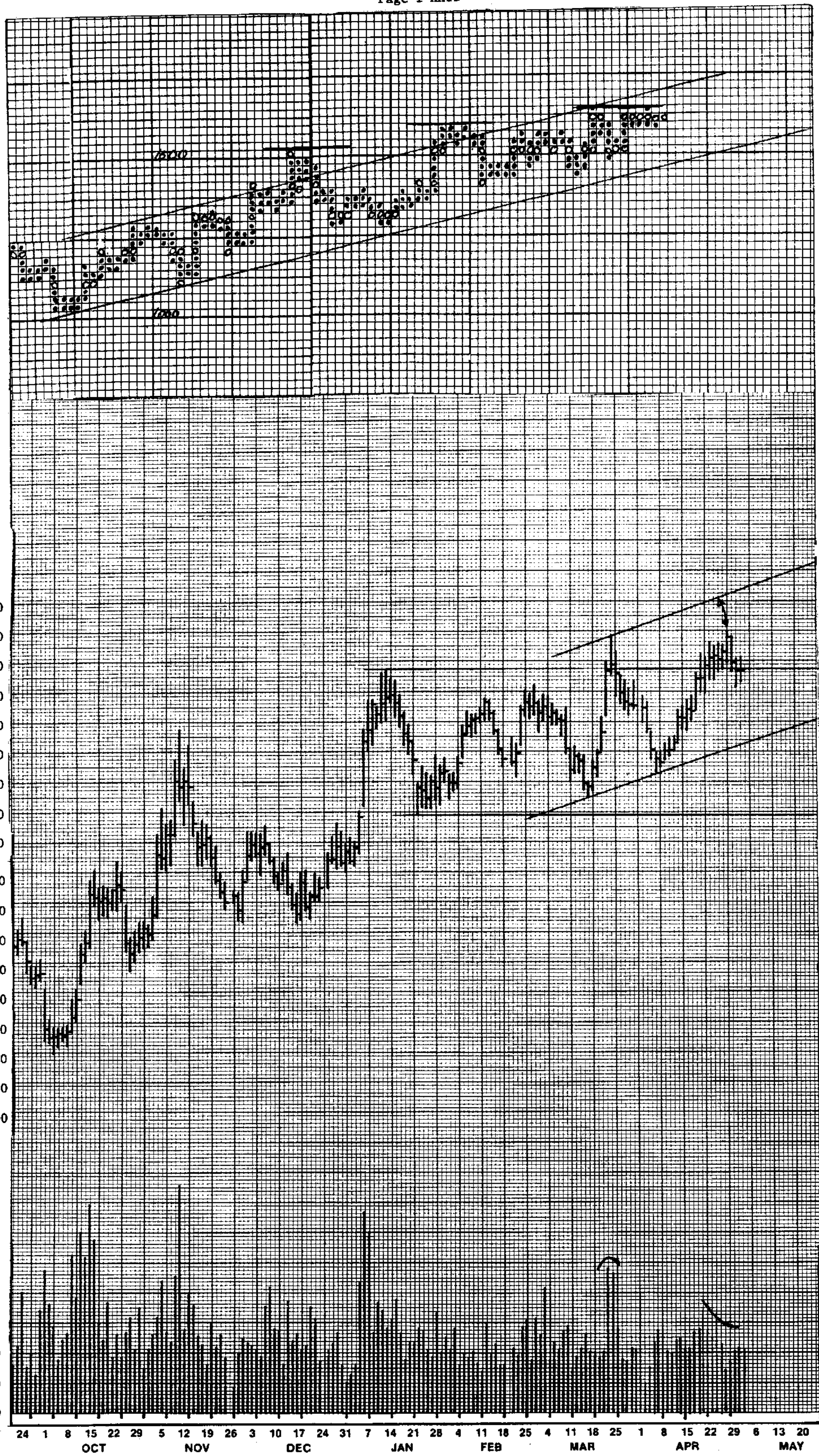

INDEX CHARTS
Stock Market Institute, Inc.

MEDICAL GROUP
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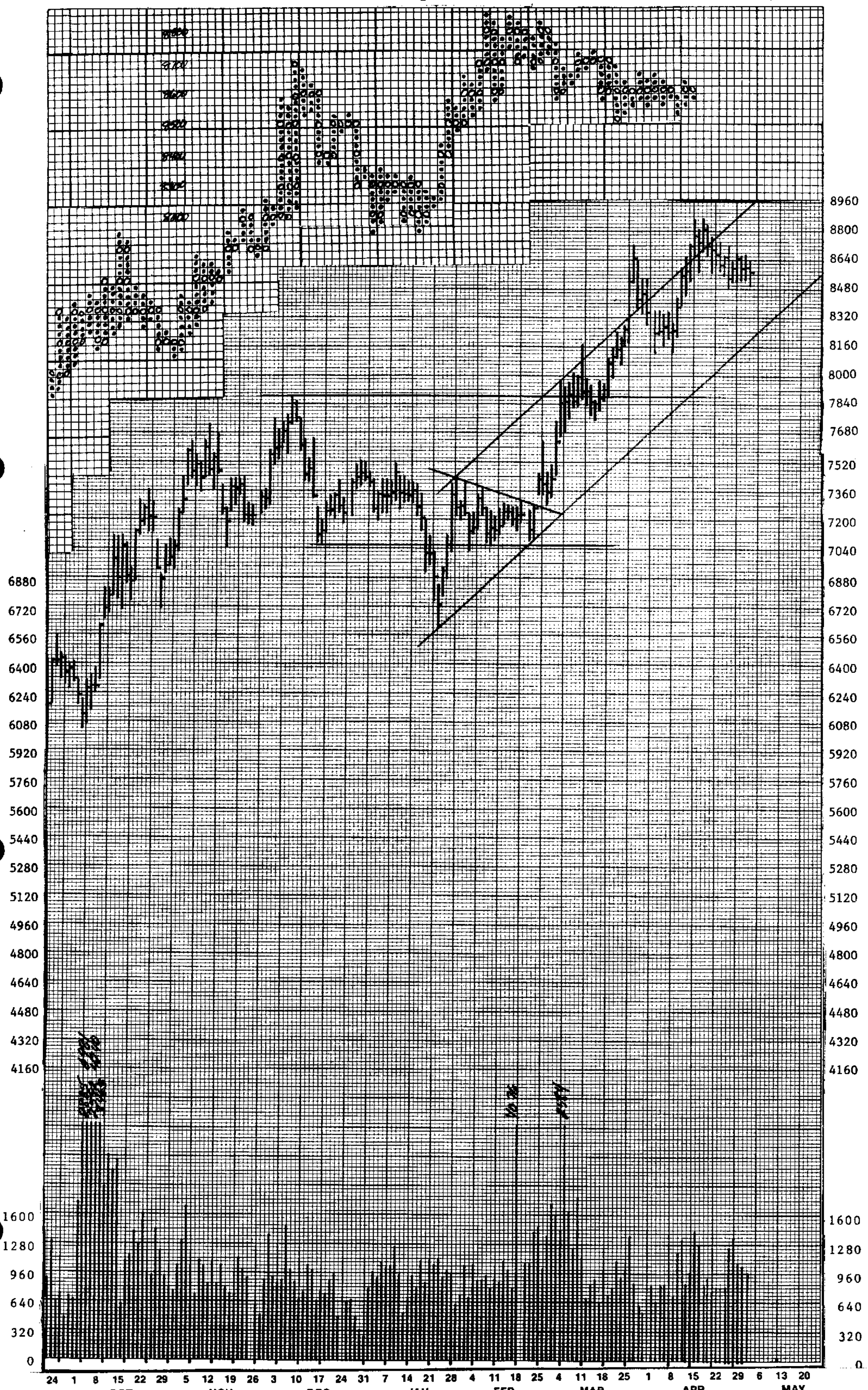

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INDEX CHARTS

Stock Market Institute, Inc.

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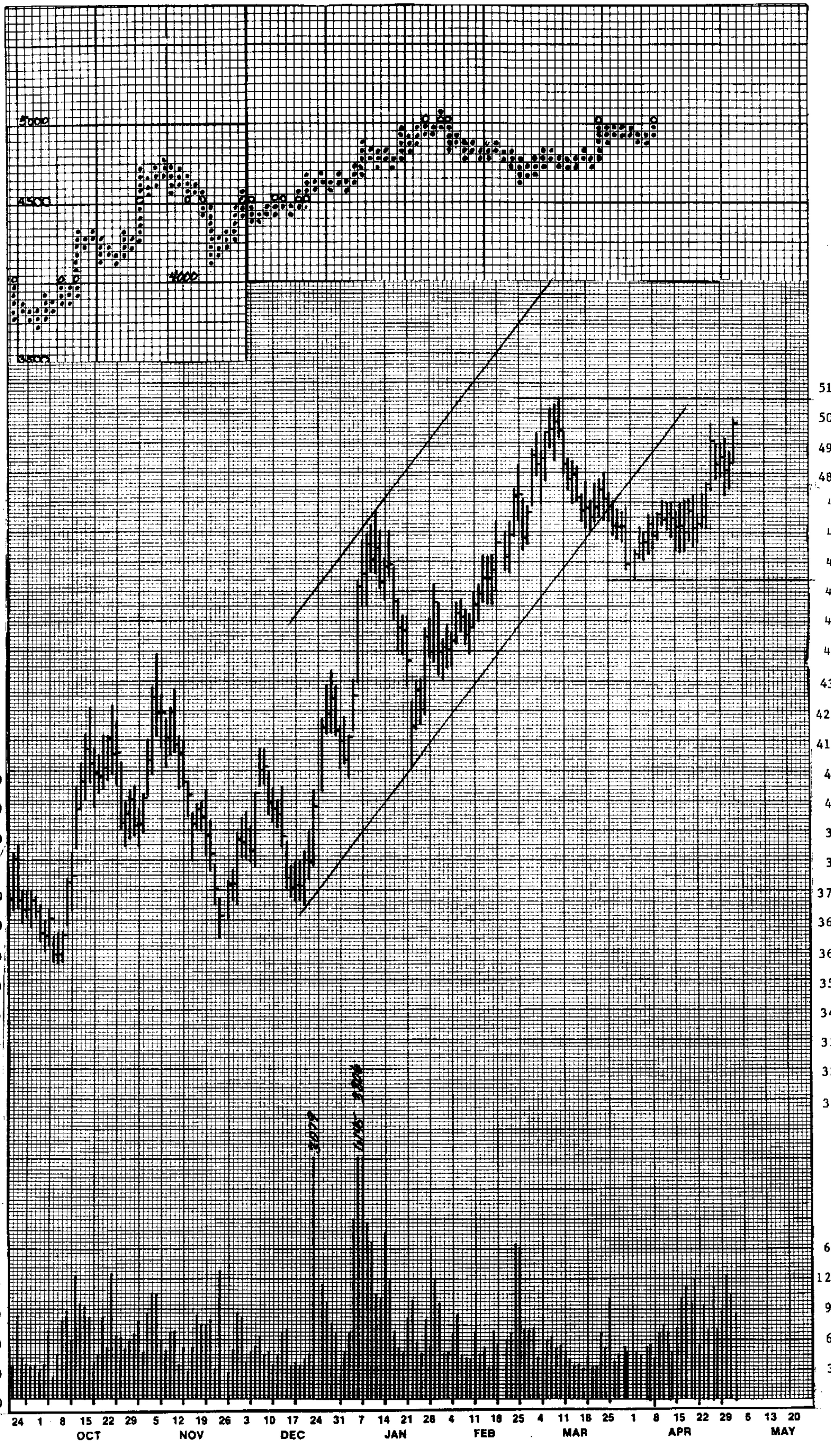

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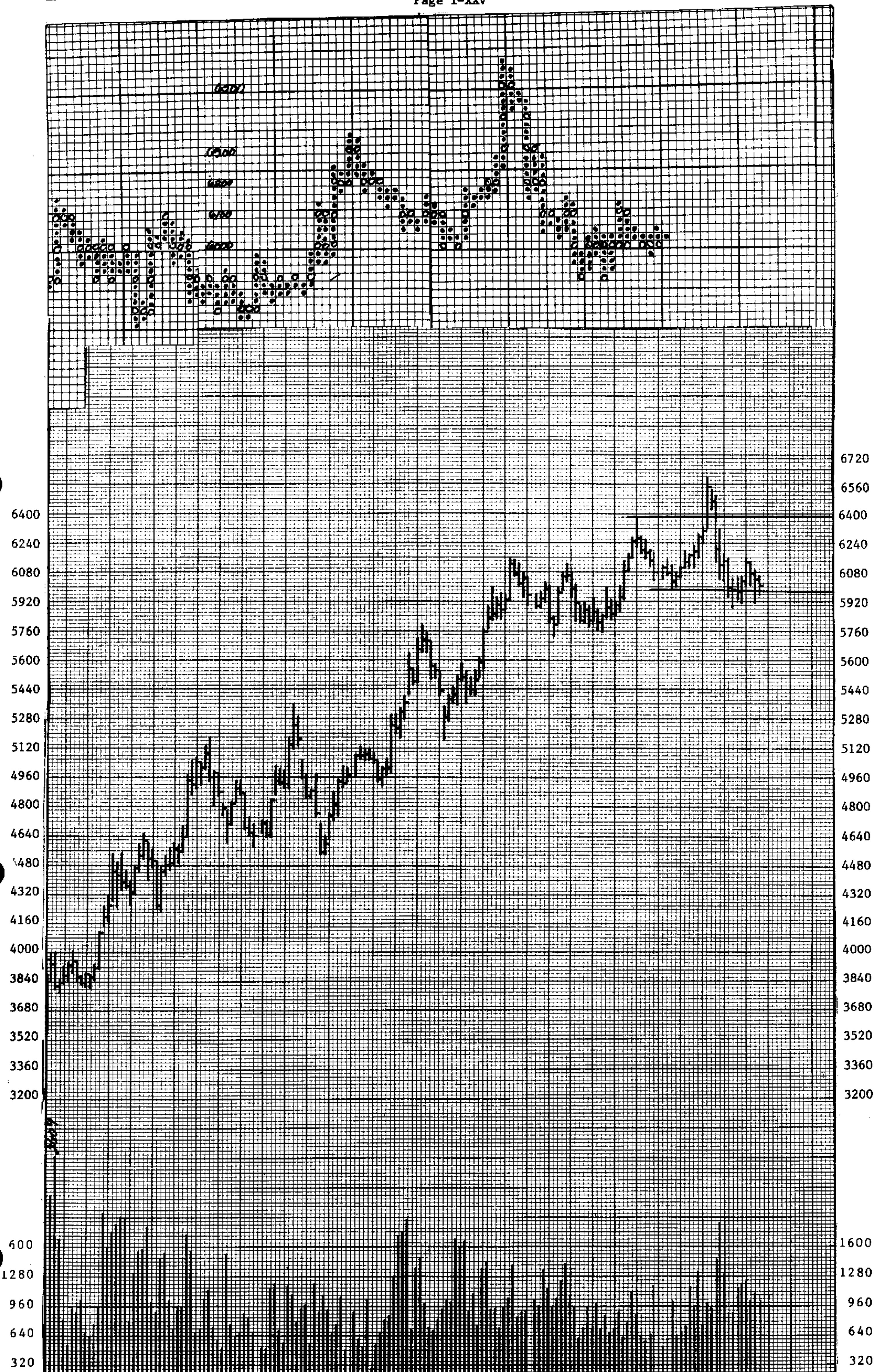

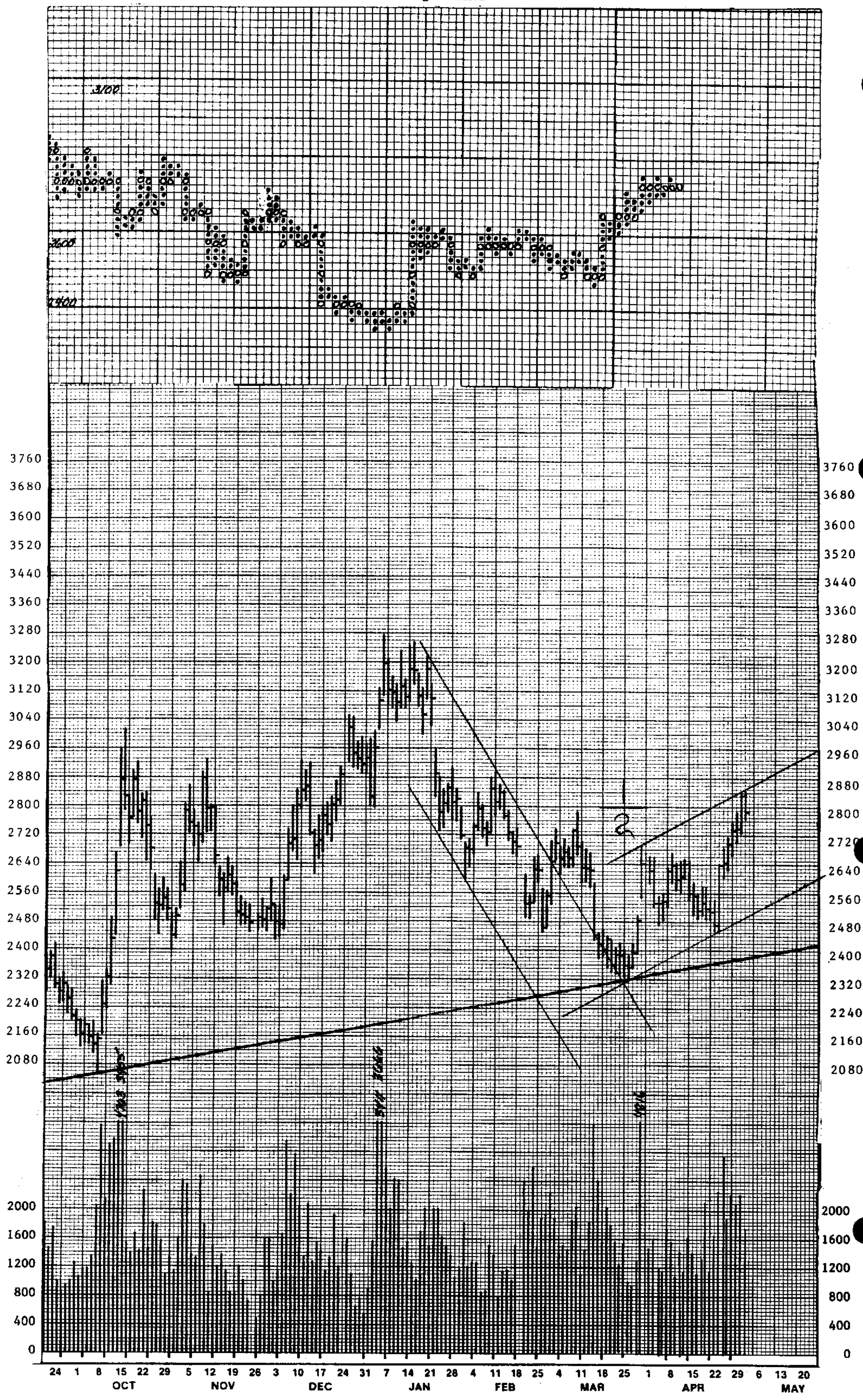
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INDEX CHARTS

Stock Market Institute, Inc.

OIL GROUP
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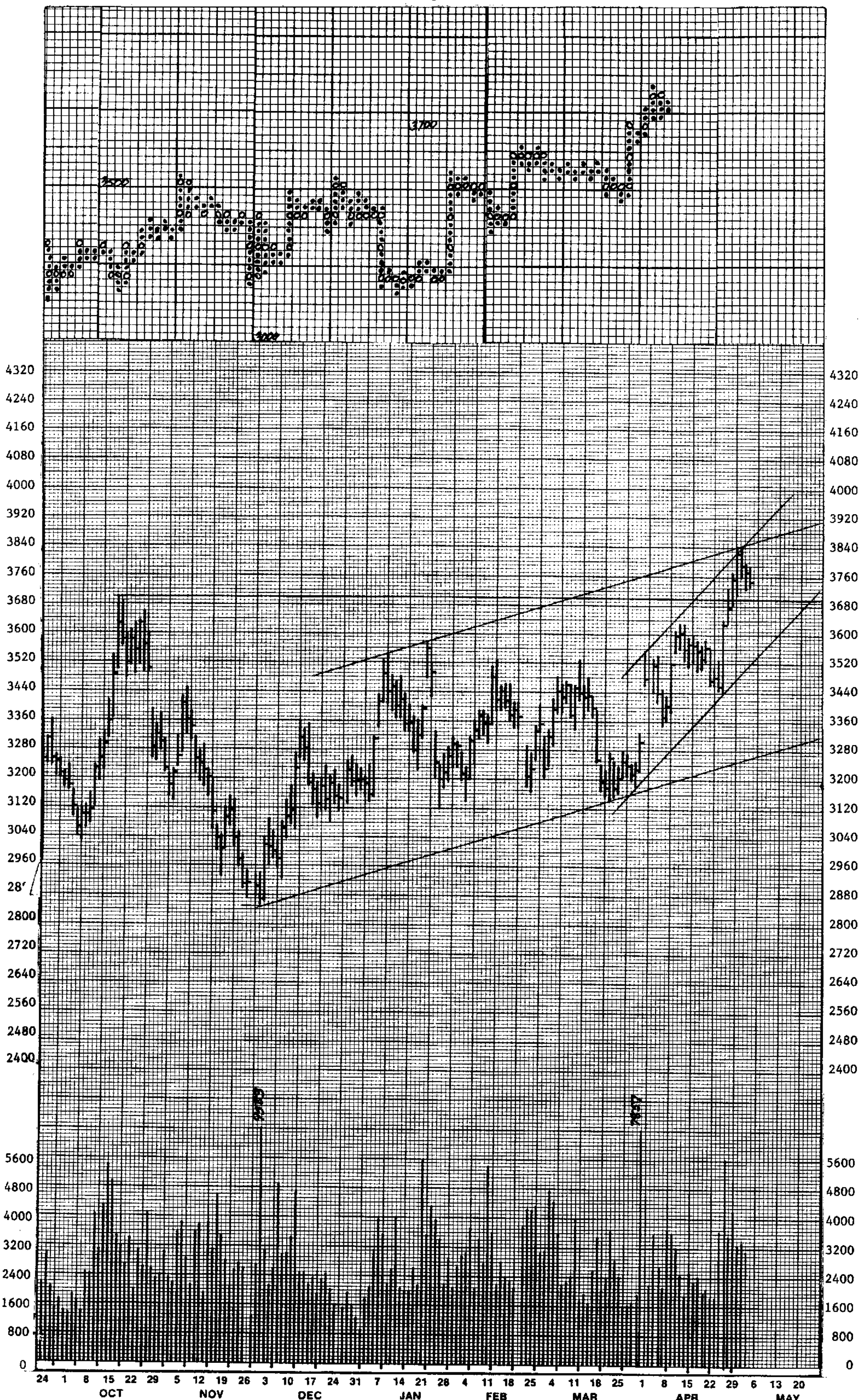

SMI **INDEX CHARTS**

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SEMI-CONDUCTOR GROUP
3(10.5AMD+4MOT+12NSM+2TXN+24UTR)