STOCK MARKET INSTITUTE Founded in 1931
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TRENDS AND TRADING RANGES

Monday, November 15, 1982

During the past two and one half weeks, the advance of the market has been extended by the addition of a third upward phase. Since many of those who are now long in the market did not take this position until late in the second phase, the news of record highs created by the third thrust must bring a measure of comfort. If so, it represents just about the only positive accomplishment of phase three. In going to new record highs in recent days, the market has revealed that something is wrong with the advance. This time, the problems appear to be such that a renewal of the buying frenzy will not be able to cover them up. In fact, a new burst of the buy anything syndrome that has been witnessed since early October could take the problems the market is already experiencing and make them much worse.

The problems that now face the market can be seen no matter from which perspective we choose to view them. From the long term perspective, for example, we can see that the Wyckoff Wave has clearly entered an overbought position. The penetration of the overbought line appears to be severe, which invites the conclusion that a dangerously overbought condition exists or soon will.

The long term position of the market is confirmed by the weekly trend barometer. On Friday, the Technometer reached a reading of 50.9, which we normally see as being clearly overbought. This was accompanied by down turns in both the Force and Momentum indexes. The combination when seen on the daily barometer indexes is seen as one that presents an almost insurmountable obstacle to further immediate progress. There is no reason to conclude otherwise about a similar situation in the weekly indexes. The overbought position and condition of the market cannot be overlooked. Somehow it must be corrected, so that the market can give us a new signal that it is ready to begin upside progress again.

Accepting the idea that a problem exists is relatively easy. Determining specifically what the market will do about it is more difficult. There are several options that appear to be open to the market and all of them seem to point to an extended future that is positive. Unfortunately, not all of them suggest such a positive shorter term future.

The best the market can hope for is to return to the overbought line and meet support on decreasing volume. This usually has the effect of converting an area that should bring out supply into one that provides support. A development like this can be accomplished quickly or over a somewhat more extended period. Either way, the outcome provides positive potential. However, a somewhat longer period of time may be better. The reasons for believing this are that the passage of time can allow for the development of better support under the market and potential for new upside progress. A rapid return to the overbought line is much less likely to do these things.

There is another value in a more lengthy return to the overbought line. Assuming that this retracement is constructive indicating that the Wave will hold, a redefining of the uptrend channel will be justified. Even if this process takes many weeks, the resulting trend channel will be much more aggressive than the one that currently exists. This is true, but it will still be much more sustainable than the one that will develop if the market returns to the overbought line immediately. It should be noted, however, that regardless of the amount of time involved a constructive return to the overbought line will almost certainly produce a buying opportunity of some magnitude.

If support fails to develop at the overbought line or is only temporary, the next logical stopping place for a correction is the former resistance level just above 2750. In surging through this level, the market appears to have jumped a major creek. A return to the area on lower volume will provide a back up similar in importance to the jump. At this point, the market will be back in its trend channel, out of the overbought position, and probably a good buy.

There might seem to be a problem for the resumption of upside progress following the back up. The specifics of this are that a new overbought position can develop. Both the overbought line of the current uptrend channel and the recent high are potential obstacles, but once the back up is completed its low and the August low serve as the basis for the trend that really matters. The two obstacles mentioned are only potential problems. They represent stop, look, and listen points. Pay attention, but don't panic.

The third possibility for a correction of the present overbought condition is really an extension of the second. The reason for seeing the creek as being at 2750 is that it marks an important previous top. However, the creek can be drawn as low as the 2650 area without any problem. This just happens to be where the halfway point of the entire advance lies. A return to this area on the right type of volume and narrowing price spread will suggest a successful back up and the desirability of buying.

There is another approach to the overbought situation that exists, which is being suggested by a few. Basically, it is that the market has an obvious higher objective and that its strength since August indicates that the objective will be reached very soon. The overbought position that exists is discounted by saying that the 1974 low and the 1980 low provide the basis for the real uptrend. It is true that this is a valid uptrend, but the 1932 and 1974 lows also provide the basis for an acceptable uptrend. If we accept the notion that the market must reach the overbought line of the first of these trends before getting in trouble, what is to keep us from saying that it must go to the overbought line of the second trend? Anything can, of course, happen, but to suggest this type of gain on top of what has already occurred without something significant in the way of a correction in between appears to border on greed.

The daily chart of the market's action reveals some of the same aspects of the problem highlighted by the weekly chart, but it also brings out some others. Most notable of these is the shortening thrusts. The third thrust was noticeably shorter than the second, which was noticeably shorter than the first. This indicates that the market is losing its power and that creates a big uncertainty over how much longer the move can be sustained. It does not say that there cannot be a fourth or even a fifth phase that make still less progress. It should be understood, though that taking new positions in an attempt to profit from these is a high risk venture unless there is a good correction first.

In addition to the problem with the thrusts, we can see that there has been a problem with an overbought position and condition in recent days. Both of these are now being corrected by a trading range that has developed in the past week. A sizable amount of potential has already built up in this area. It is interesting to note that the extent of the build up at this point confirms the objective of the previous count at 2920. This can be significant, but in view of the slightly overbought condition that still exists and the poor position in the trading range it is probably only a coincidence.

As soon as a trading range has been defined, efforts should begin to determine its character. This will determine the direction of the next move. In this case, there is a bias to the upside. It results from the fact that the trend channel is still in tact and because there are higher objectives. However, these just make it easier to go up. They do not guarantee upside progress. The important clues have to come from the character of the action. One has been given and it is negative.

Since the trading range is so narrow and new, the intraday chart is needed to see what is happening. We can see the climaxing action followed by the automatic reaction and secondary test. This is the normal definition of a trading range. We can also see that the secondary test produced an upthrust action on the climax, which was followed by an immediate drop well back into the trading range. This pull back came in one day. It was a day that included efforts in both directions, which often makes it difficult to know where the volume falls. In this case, though, the evidence is that it falls on the downside, which tends to confirm the idea of an upthrust.

If we have an upthrust, we need to have a test. The action of Thursday and Friday provide one. Thursday, the Wave rallies on lower volume. Friday, the advance is stopped at the top of the trading range and is turned back with volume coming in on the downside. We can use the top of the test of an upthrust as a count level. On the five point chart this results in a possible two hundred point decline back to about 3000. That is probably too far below the bottom of the current trading range to be a spring. However, we should not dismiss the possibility of one developing as the market attempts to work out its count. We have already seen this happen once at the beginning of the second phase. It can happen again, but the decreasing strength of the market argues against it.

Since there is an upthrust, a test, and the potential for a modest short term decline, does it make sense to be short for the short term? Someone who took a short term short position on Friday morning can justify it provided he is aware of and accepts the extra added risk. It results from the lack of a clearly overbought condition. The market sold off on Friday, but does that mean the test is over? Another attempt to test the upthrust may occur and may not be so easily stopped since an overbought condition does not exist. Since short term positions have close stops, a further attempt to test might result in being stopped out. If there is another attempt to test that results in an overbought condition, short positions will be in order. For the moment, though, they appear a bit too risky. As for positions of other than a short term nature, new ones are not advisable. The market appears to be too tired of what it has been doing and not ready for anything else of enough significance to take any new action. Therefore, all that can be said is that the trend is still up and it is best to go with it as long as possible. The only exceptions are stocks that have reached objectives or that have broken support lines. These can be sold.

GROUP ANALYSIS

Every group participated in the first and second phases of the advance to one extent or another. However, all the groups did not participate in the third phase. Some that did, did so halfheartedly. Due to rotation, it is unreasonable to expect all sectors of the market to move uniformly all the time. However, when that has been the pattern and the pattern starts to change, it is time to sit up and take notice. If a short term opportunity on the short side is going to develop, stocks in the groups that failed to participate in the third phase or that performed poorly may be good candidates.

The aerospace group presents an opportunity for the short side. Here the problems began developing as far back as the end of the first phase when the group corrected much more than the general market. Shortening of the thrusts set in on the second phase, but the more serious problems can be seen in the third phase. There was almost no new progress made. The small amount that the chart shows can be seen as an upthrust of the prior high. This past Wednesday's action shows a test of the upthrust, but not on lower volume. Now the price is penetrating the support line of the uptrend. Since the upthrust was poorly tested, there is need for another. If the uptrend is being broken, this needs to be confirmed. If a short term opportunity is coming it is probably a few days away. The action from now till then may accomplish what is needed here to produce a short selling opportunity.

In the chemical group, there is another possible short side opportunity. The third phase in this group did nothing more than upthrust the previous high. Last week, the upthrust was tested on lower volume. The index has now moved back into the trading range. The one thing that keeps this from being a clearly negative picture is the fact that as the price has returned to the trading range volume has dried up. This suggests the possibility of more testing, which may bring the short term shorting opportunity. Its development will depend on an inability to rally caused by a failure of volume to expand as the rally attempt is made.

The diversified group is another that shows a feeble third phase to the advance, which has led to some potentially serious problems for the uptrend. The action of the past few days has pulled the price back into the previous trading range and put the uptrend in jeopardy. Obviously, this second point is the more serious problem. Having reentered the earlier trading range, the price might now sink to its support level. Any movement in this direction will break the uptrend. If the break is for real, it will be followed by a lower volume confirming rally, which will mark the short selling opportunity.

One of the reasons that most of the groups that appear to be in trouble are only presenting short term possibilities is a lack of count. The drug group, however, has a count and its price and volume indicates something is wrong. Here as in some of the other groups, the third phase produced nothing more than an upthrusting action. This has been tested and the price is now back in the trading range. It is interesting to note that in this case the volume has remained somewhat higher than in other groups where similar action is underway. This in combination with the count and the fact that the uptrend is about to be broken makes the drug group one of the better short candidates.

We know that the market is always in the process of rotation. Those groups that begin to move first or move best do not always keep moving the longest. When their potential is used up, the move is over regardless of what has come before. The gold and silver group appears to fall into this category. It got an early start, had a tremendous middle, but now the move appears over. Here again we have a third phase that only upthrusted the second and which has been followed by a rather decisive sell off. The uptrend is now on the verge of being broken. Neither of these are characteristics of a market leader. An attempt to rally now or after the support line fails may bring a short selling opportunity providing the effort fails to bring out demand.

The potential short selling opportunities mentioned thus far are more potential than real. They need additional development to bring them to the point where action is warranted. In the case of the oil exploration and oil group, the shorting opportunities are much more real. Both groups are now in down trends. In the oil group, the down trend has totally replaced the uptrend and is well on its way to producing a halfway correction of the entire advance. A rally to the supply line on low volume will provide an opportunity to sell short. The uptrend in the exploration stocks has not as yet been broken, but the transition from uptrend to down trend is clearly underway. In this group, shorting can also be justified on a lower volume rally to the new supply line.

The groups not mentioned as potential short candidates have been skipped because they continue to demonstrate too much strength or are poorly positioned for action on the short side or both. This does not make them candidates for new long positions. Groups whose uptrends remain in tact and do not demonstrate other signs of trouble may justifiably be held, but that should be the extent of action on the long side for now.

INDEX CHARTS

STOCK MARKET INSTITUTE, INC.

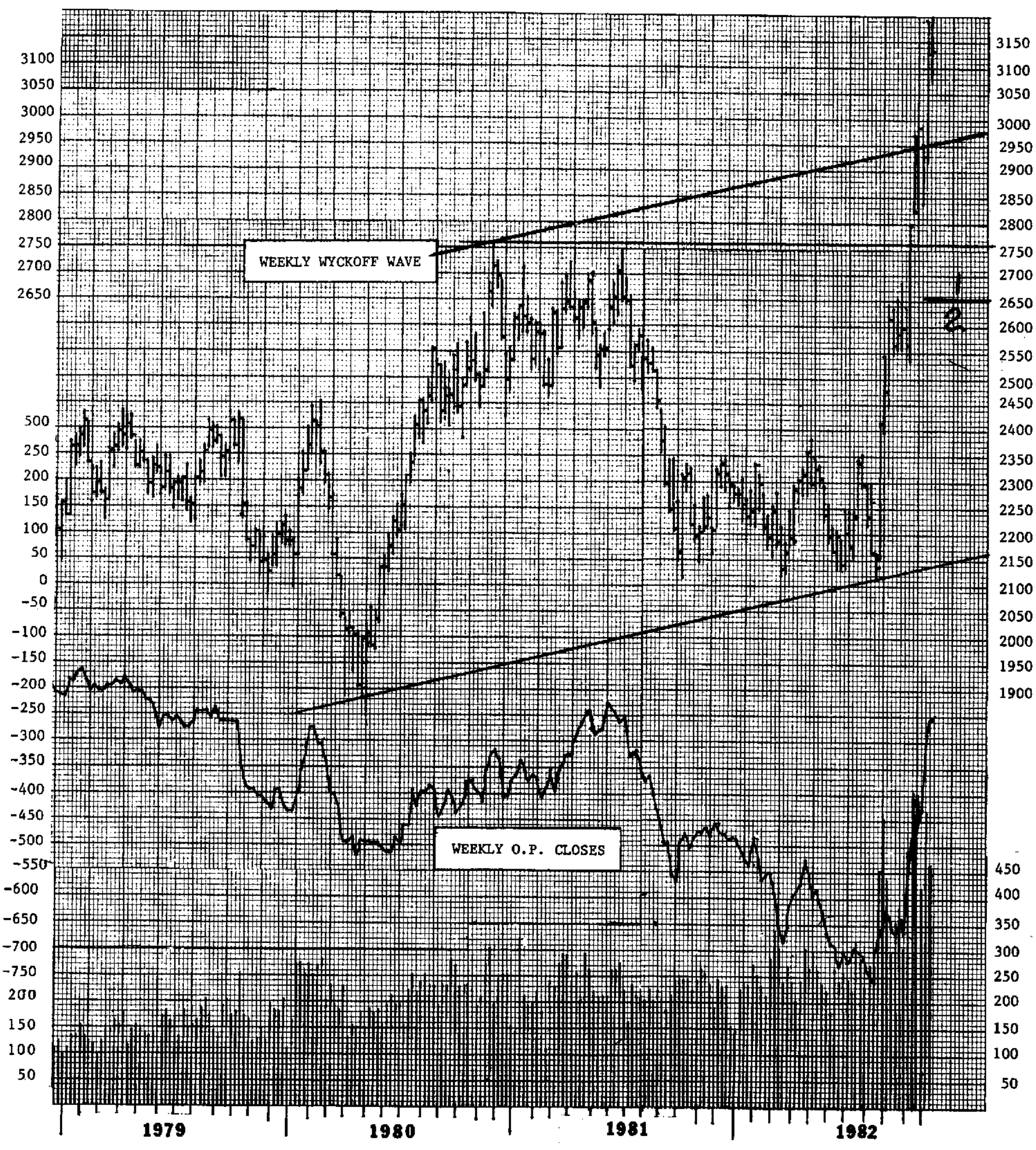
NOVEMBER 10, 1982.

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:

- 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.



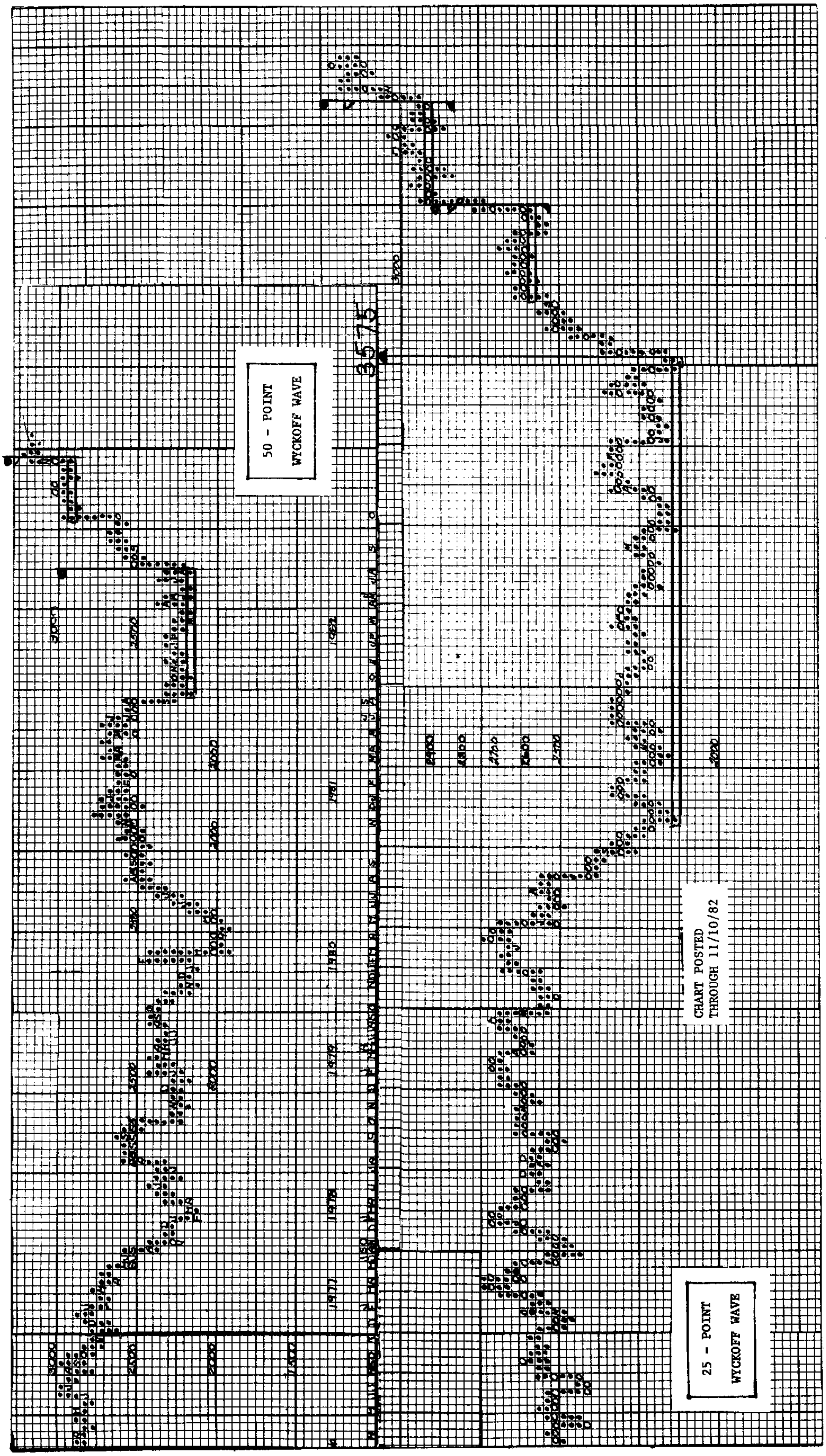

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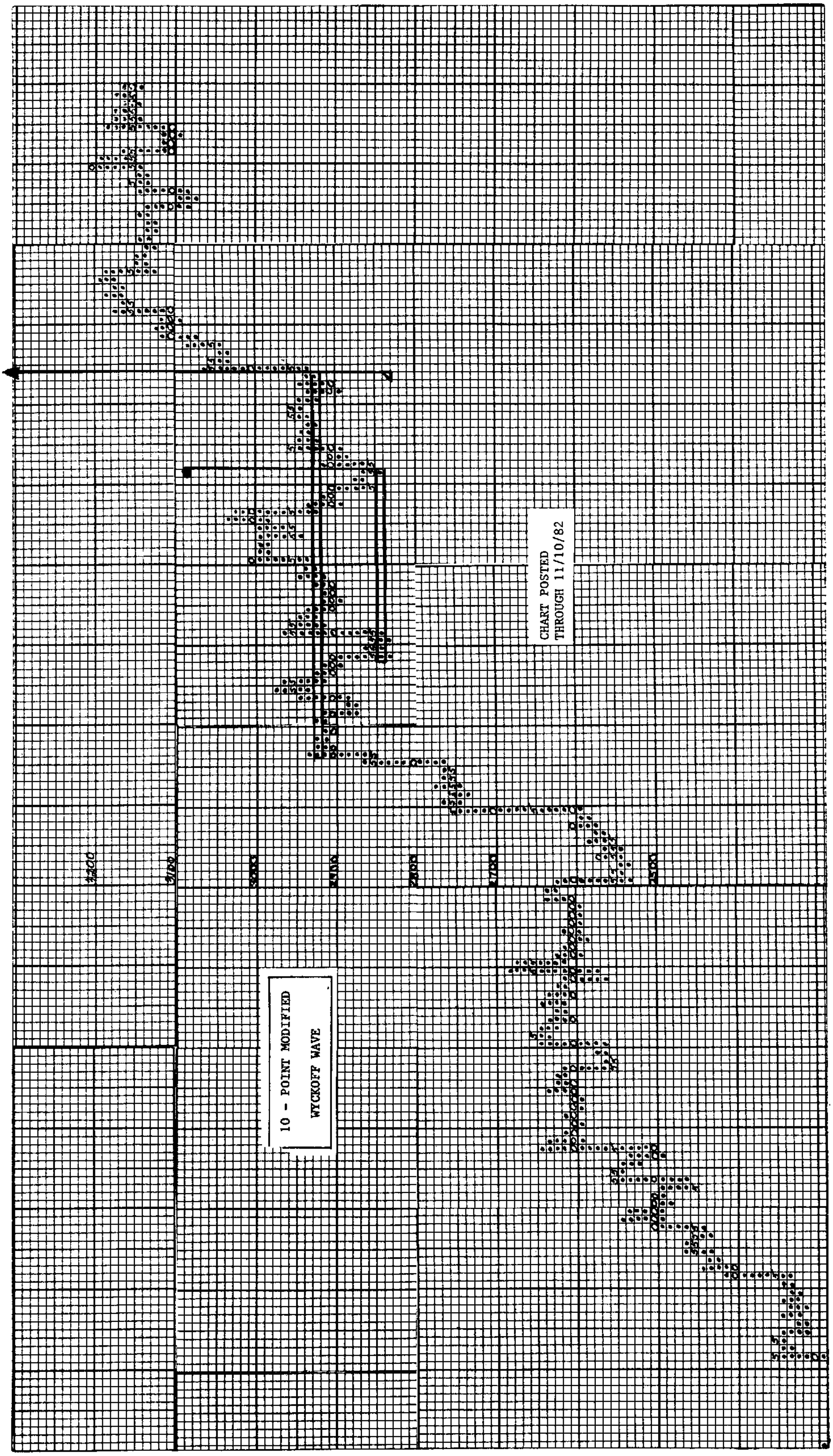
CHART POSTED
THROUGH 11/10/82
25 - POINT
WYCKOFF WAVE

3310 - 3400



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3100
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THROUGH 11/10/82
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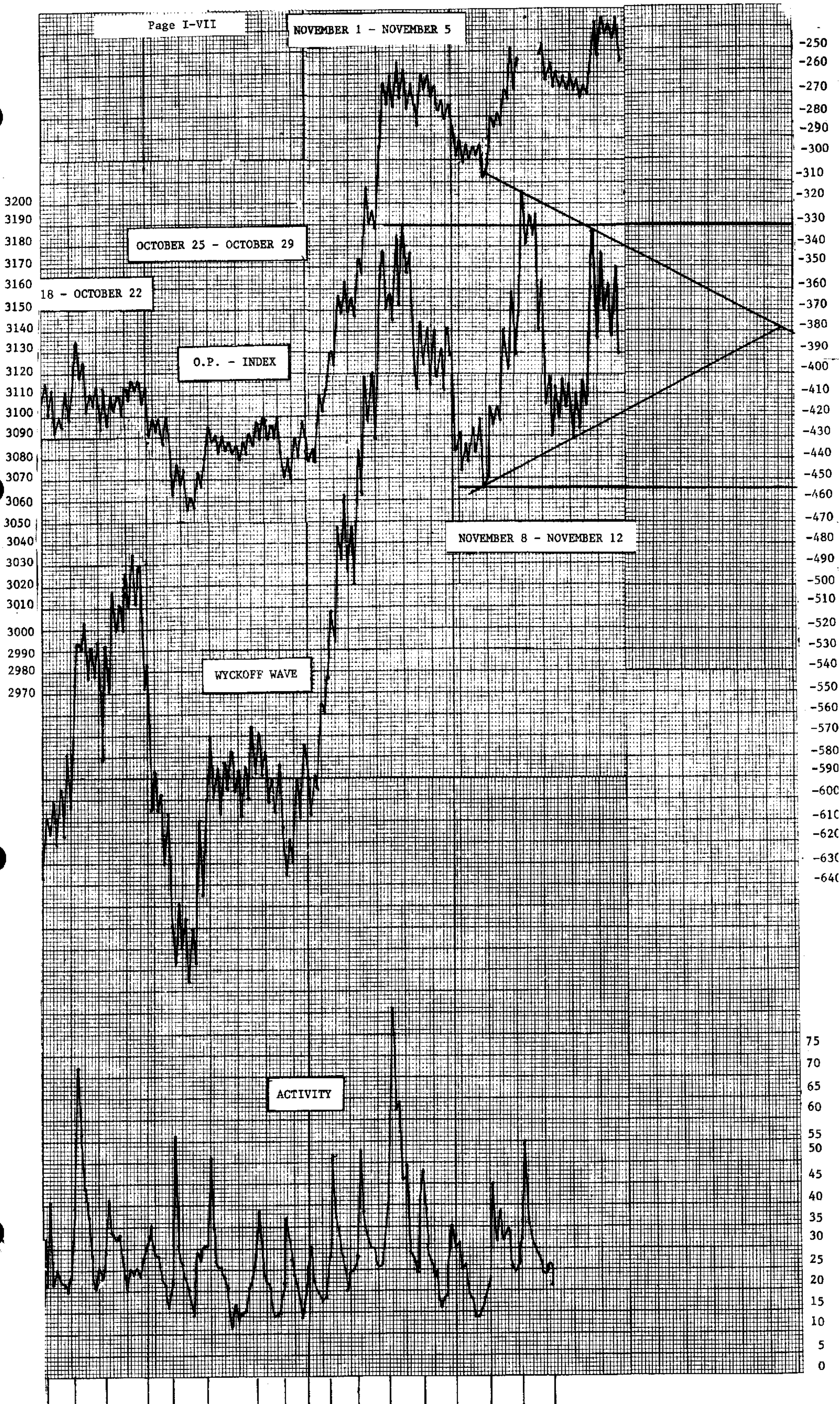
WYCKOFF WAVE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18 - OCTOBER 22
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WYCKOFF WAVE
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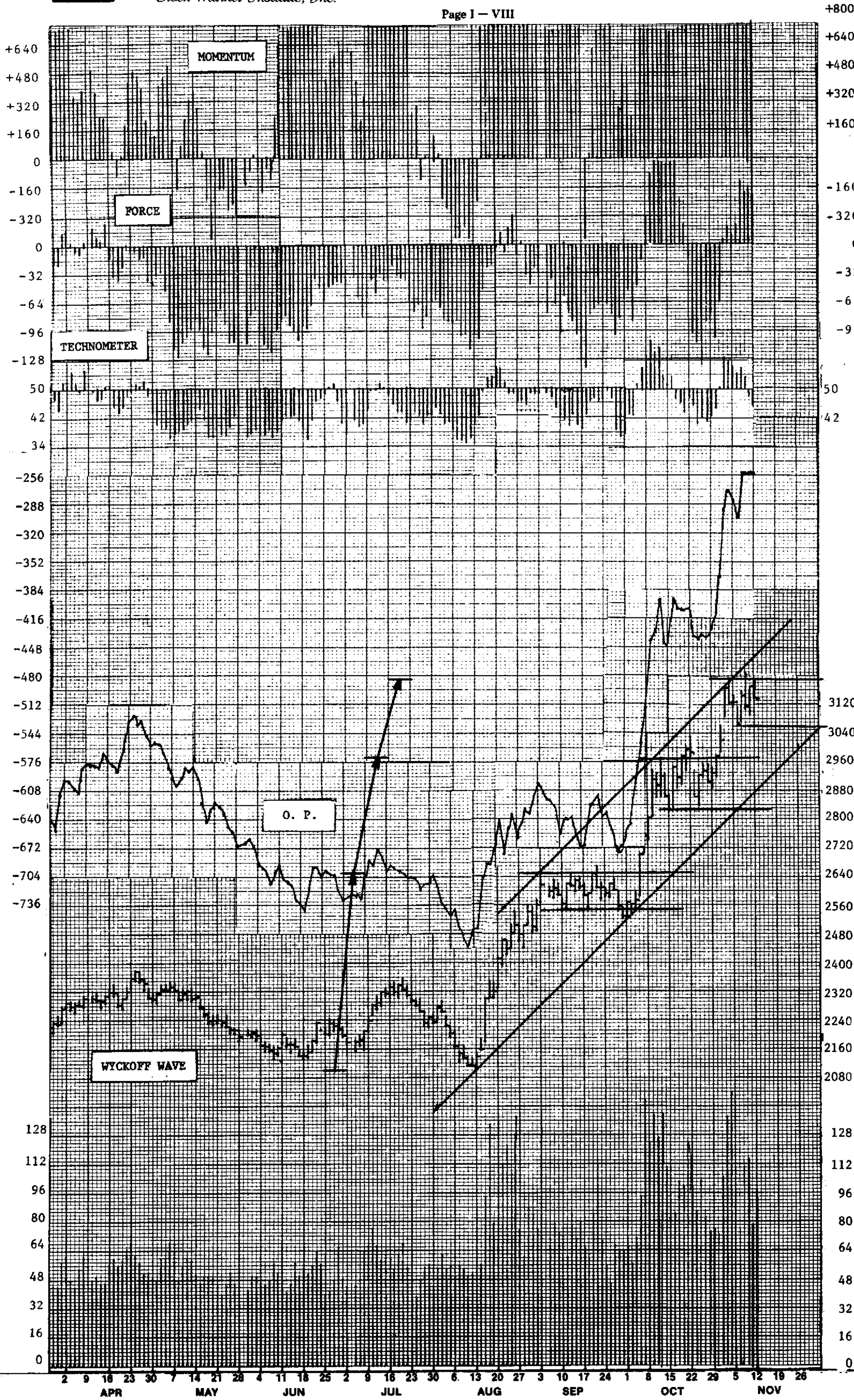

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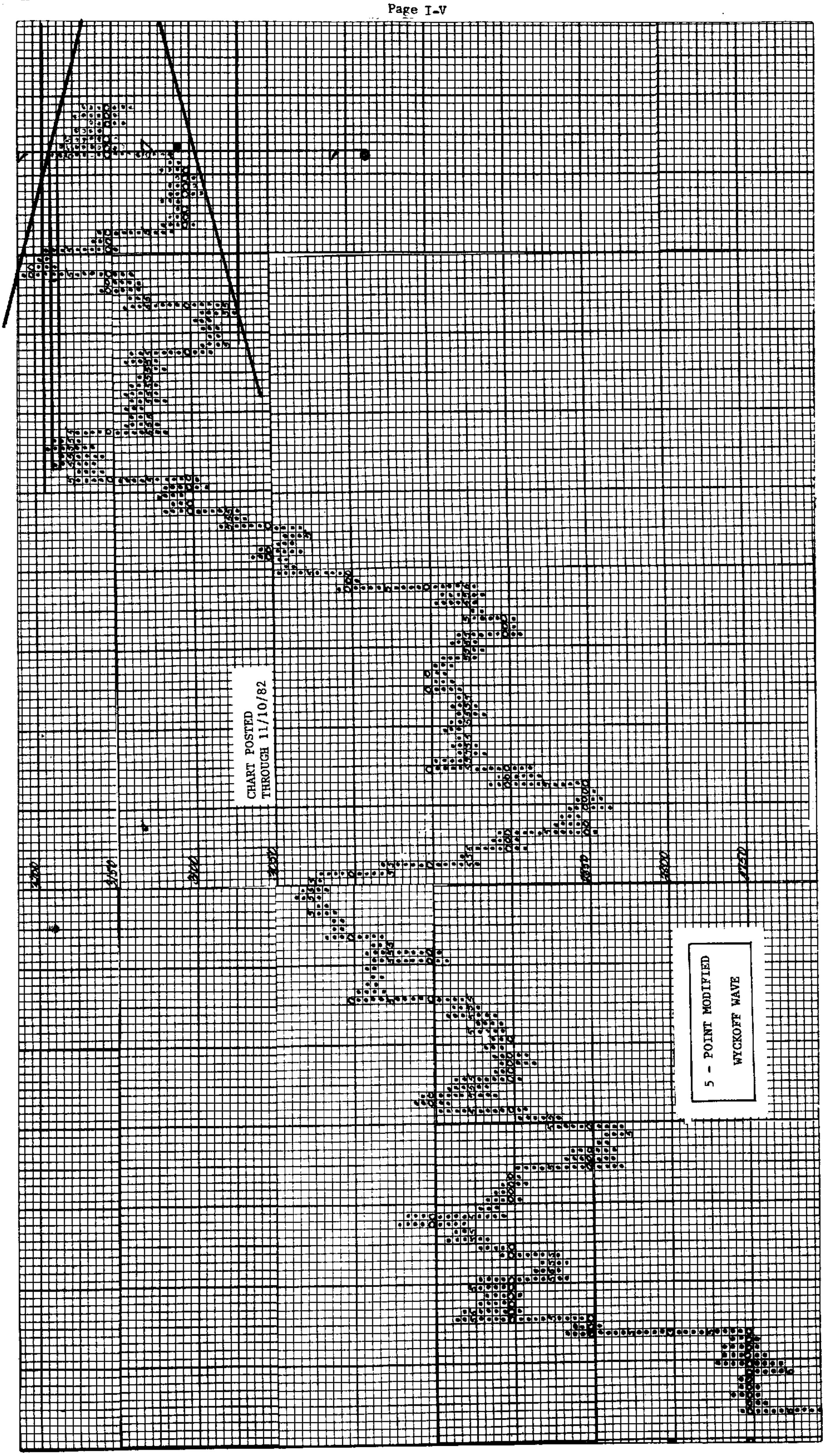

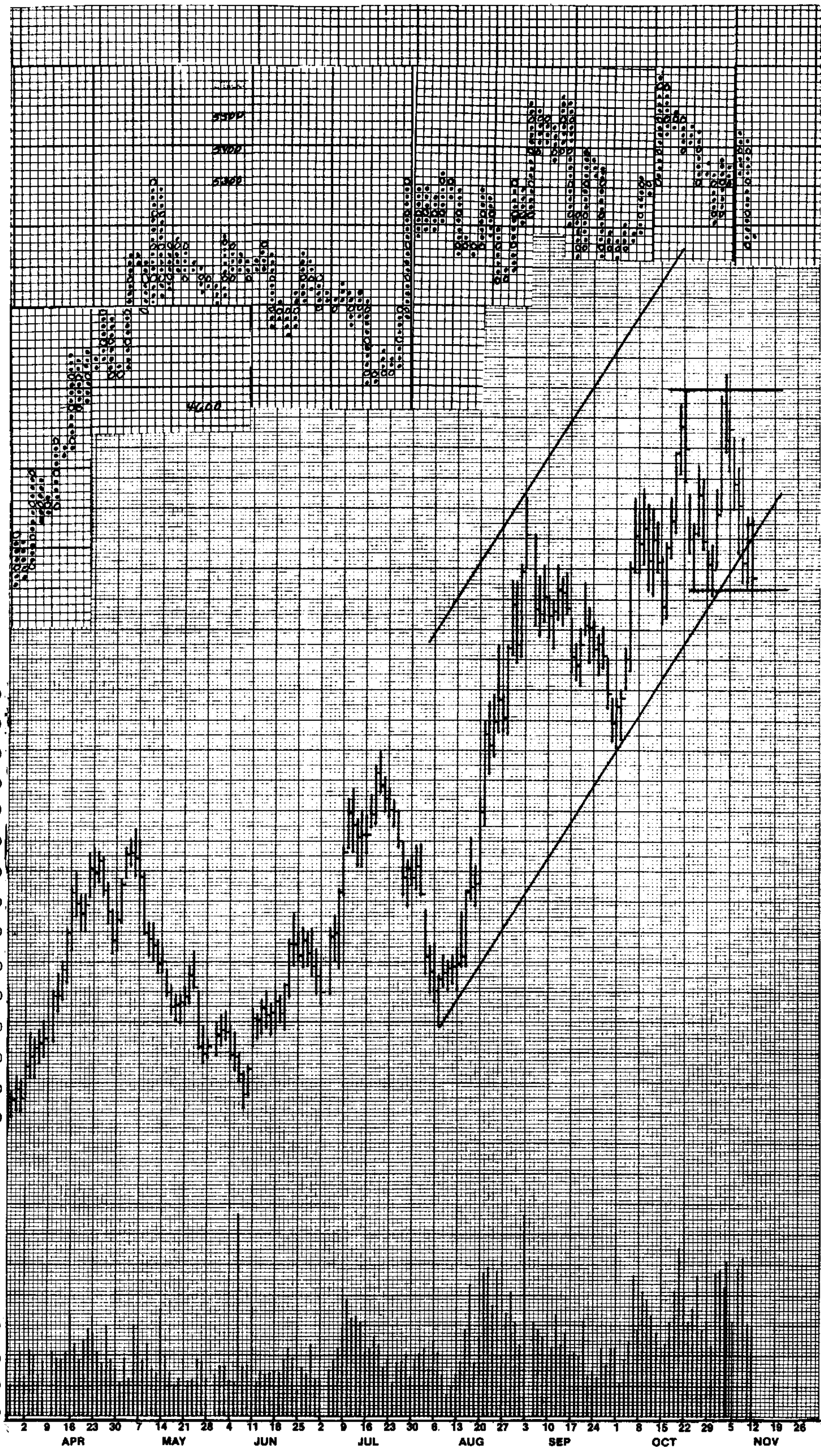

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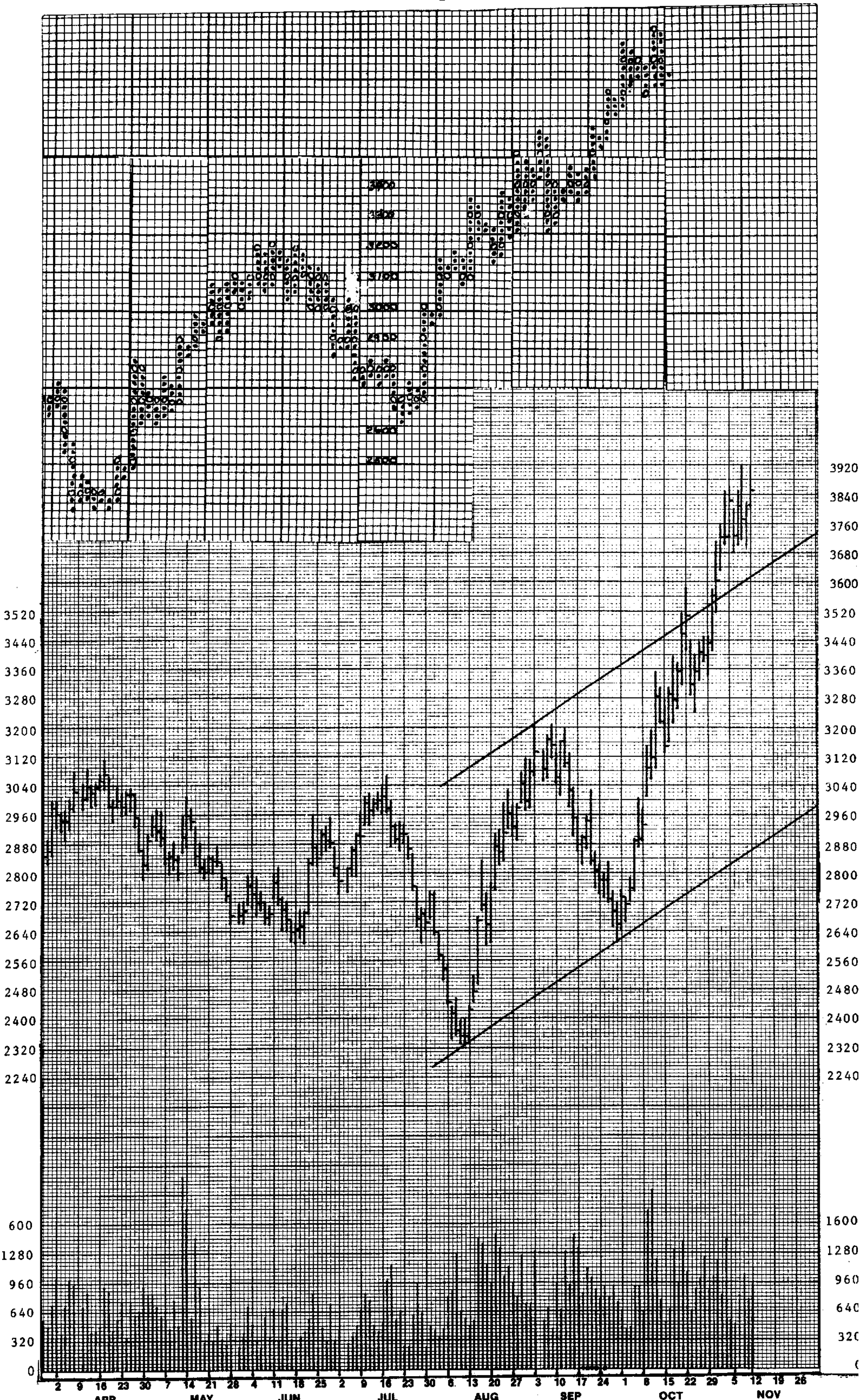

INDEX CHARTS

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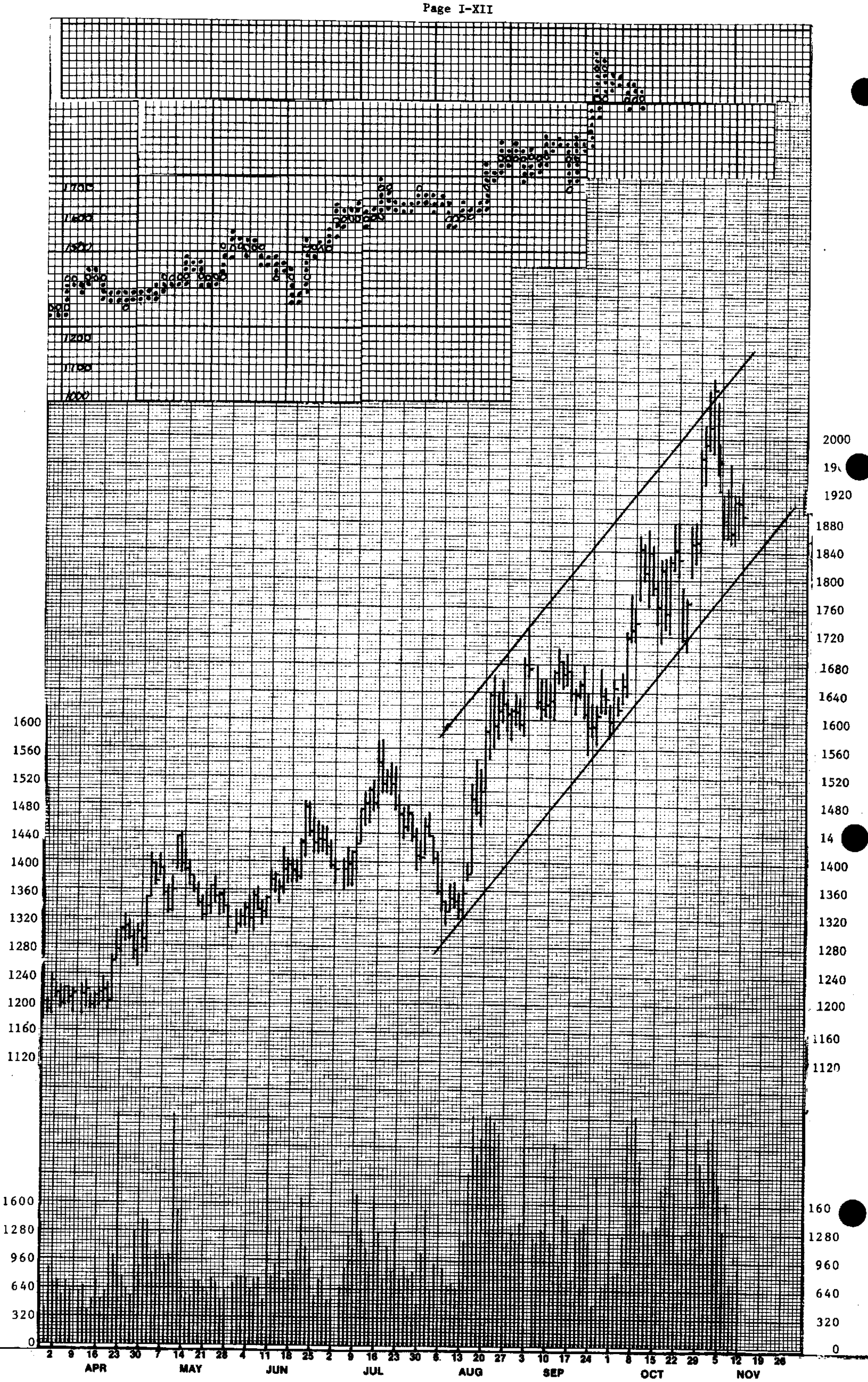

INDEX CHARTS

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BUILDING MATERIALS GROUP
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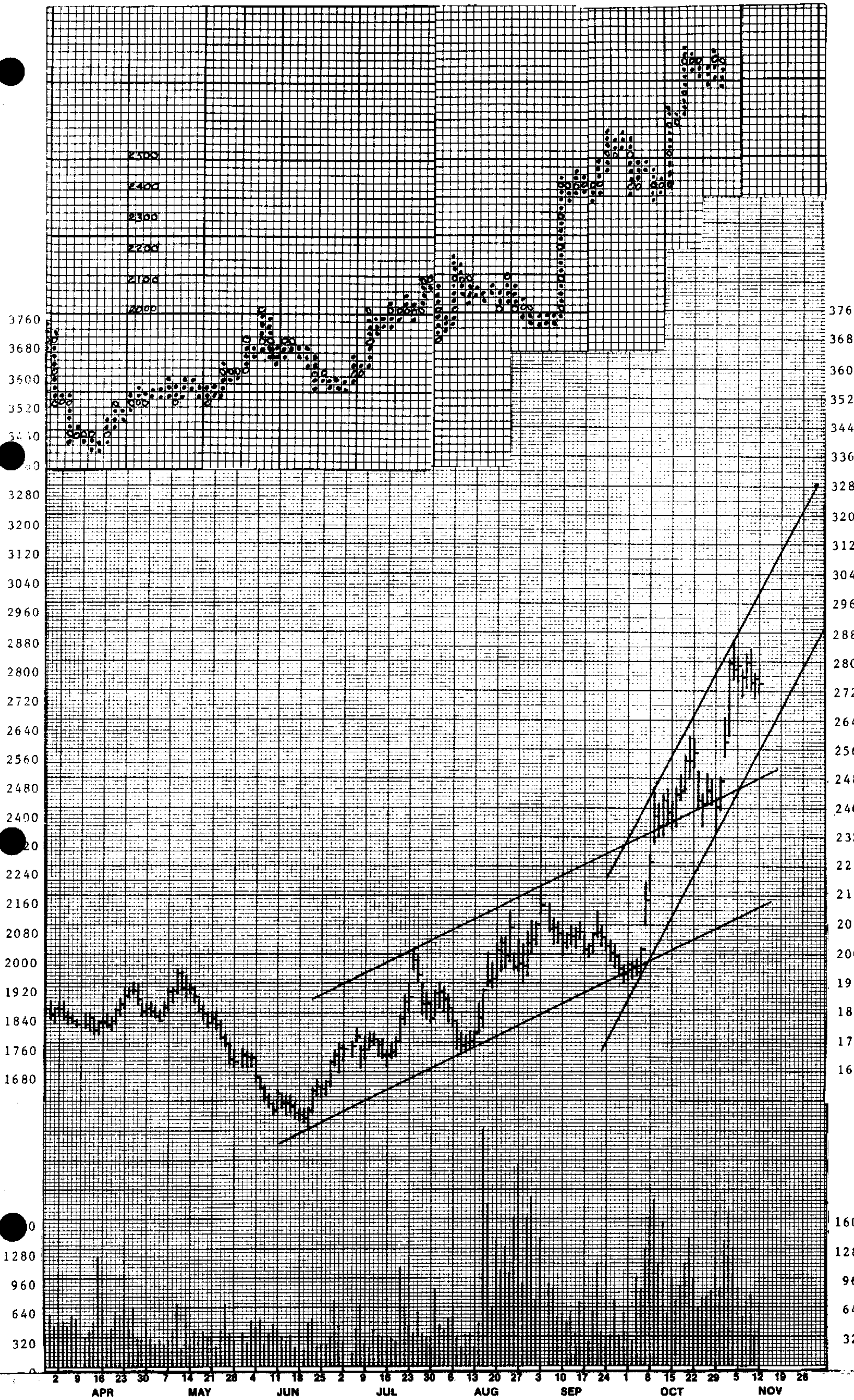

INDEX CHARTS

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CHEMICAL GROUP
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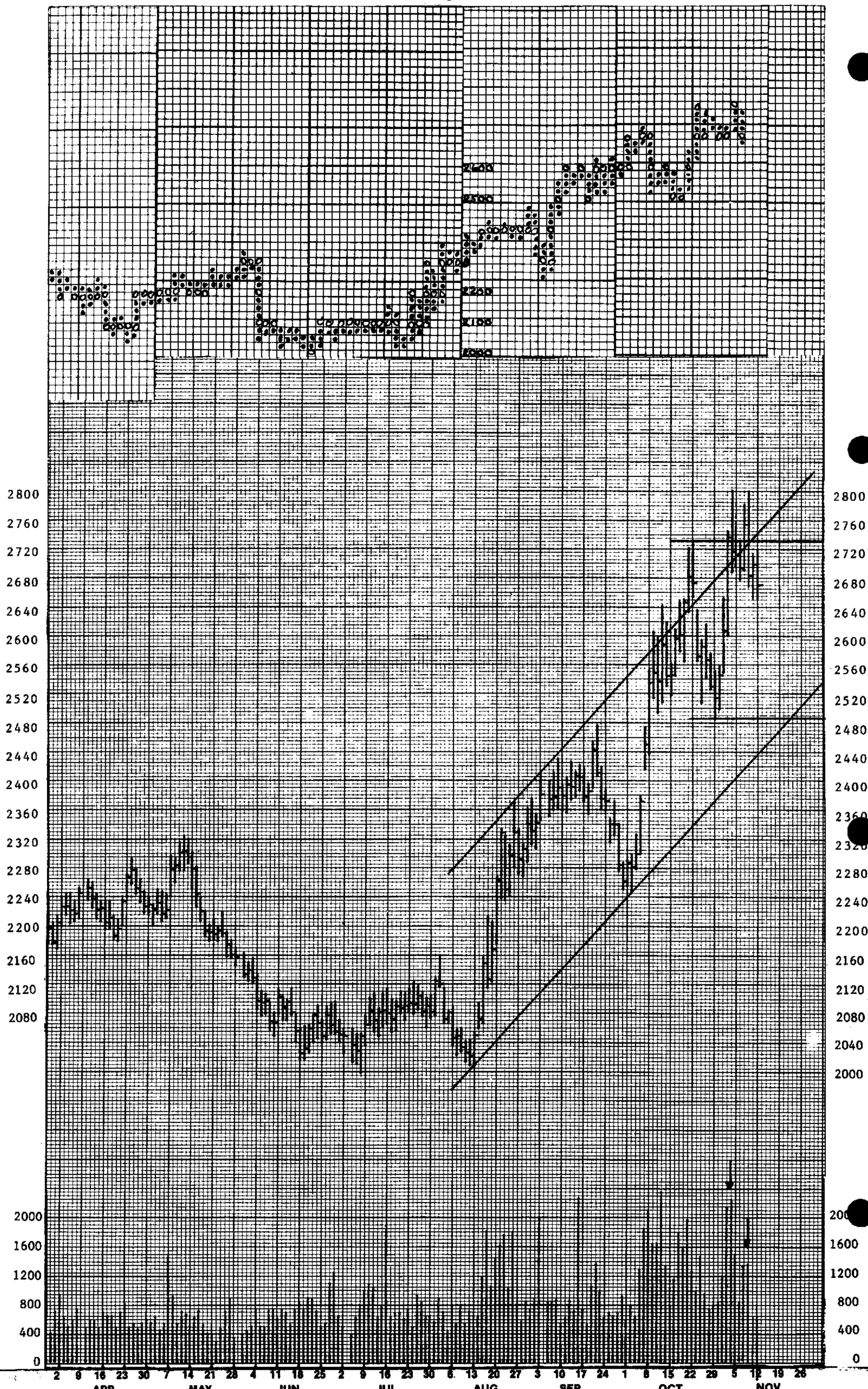

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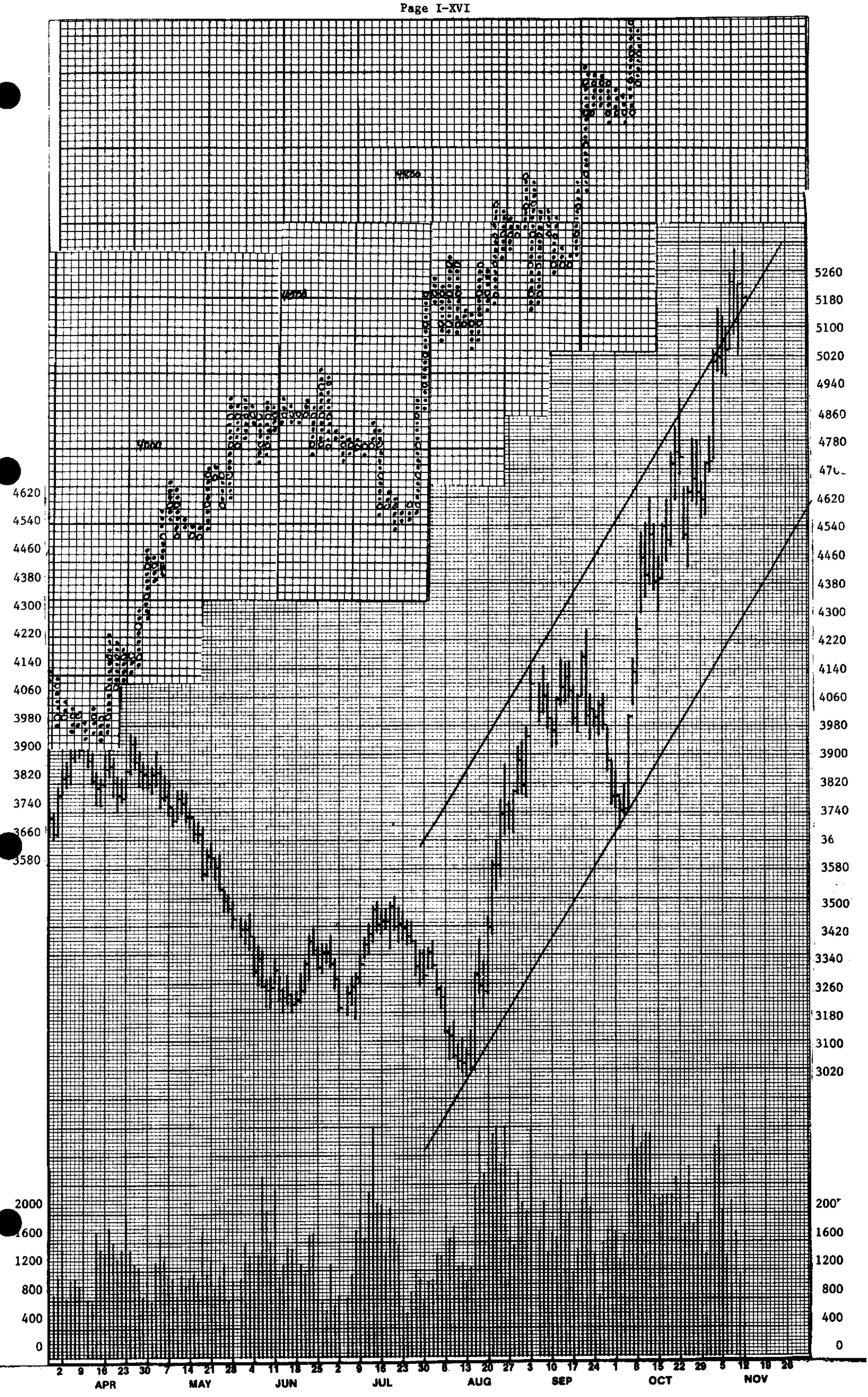

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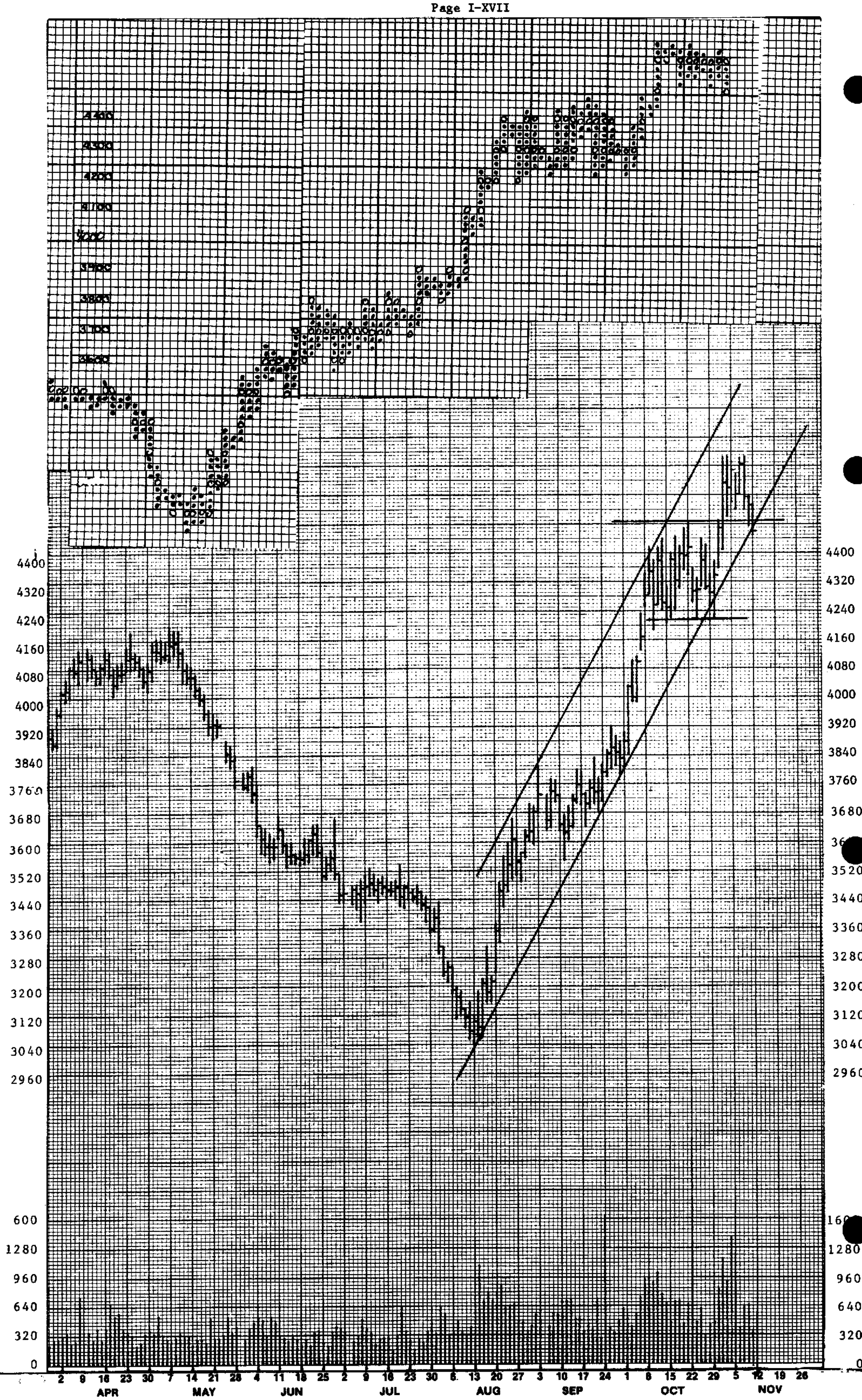

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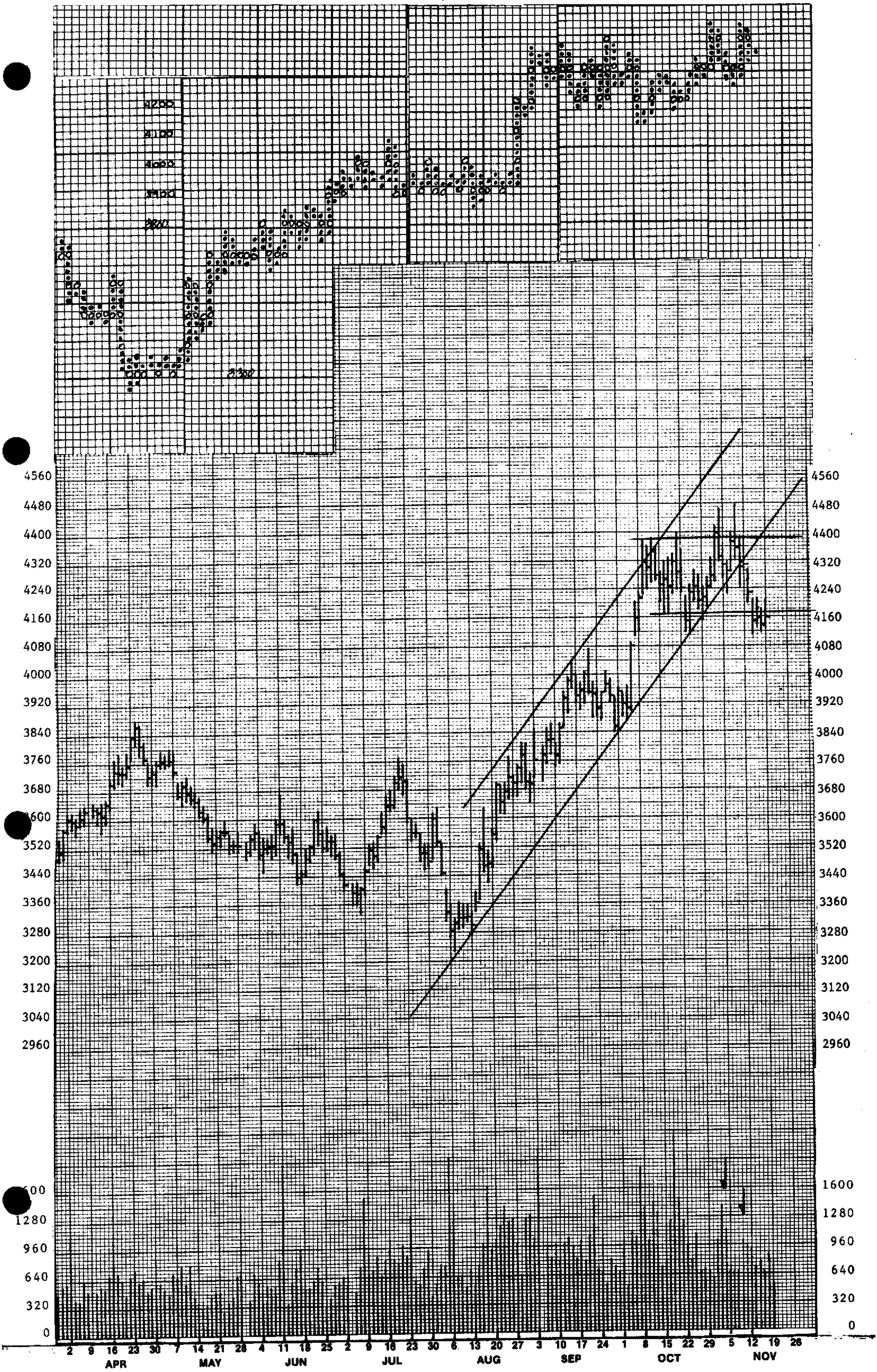

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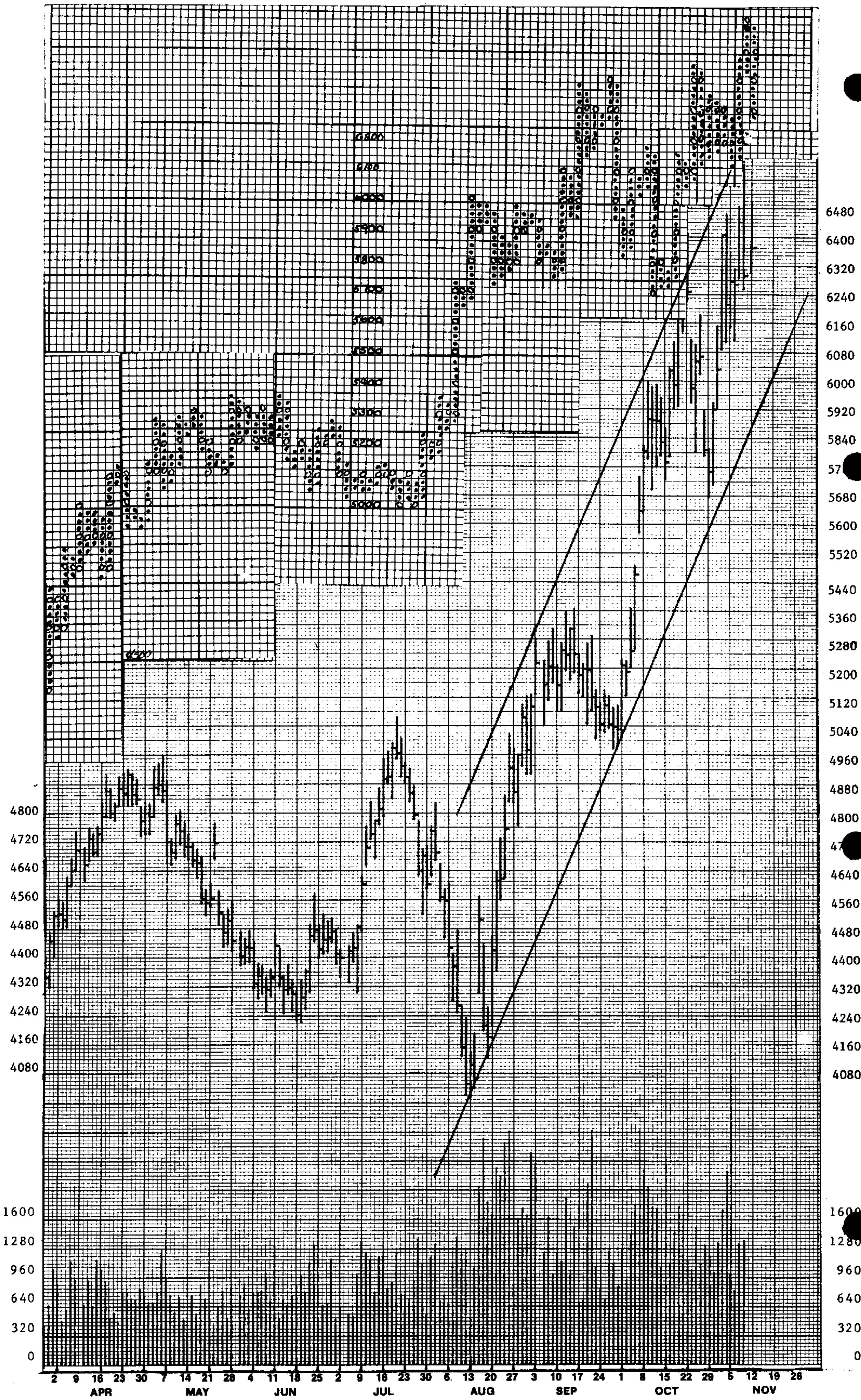

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GOLD & SILVER
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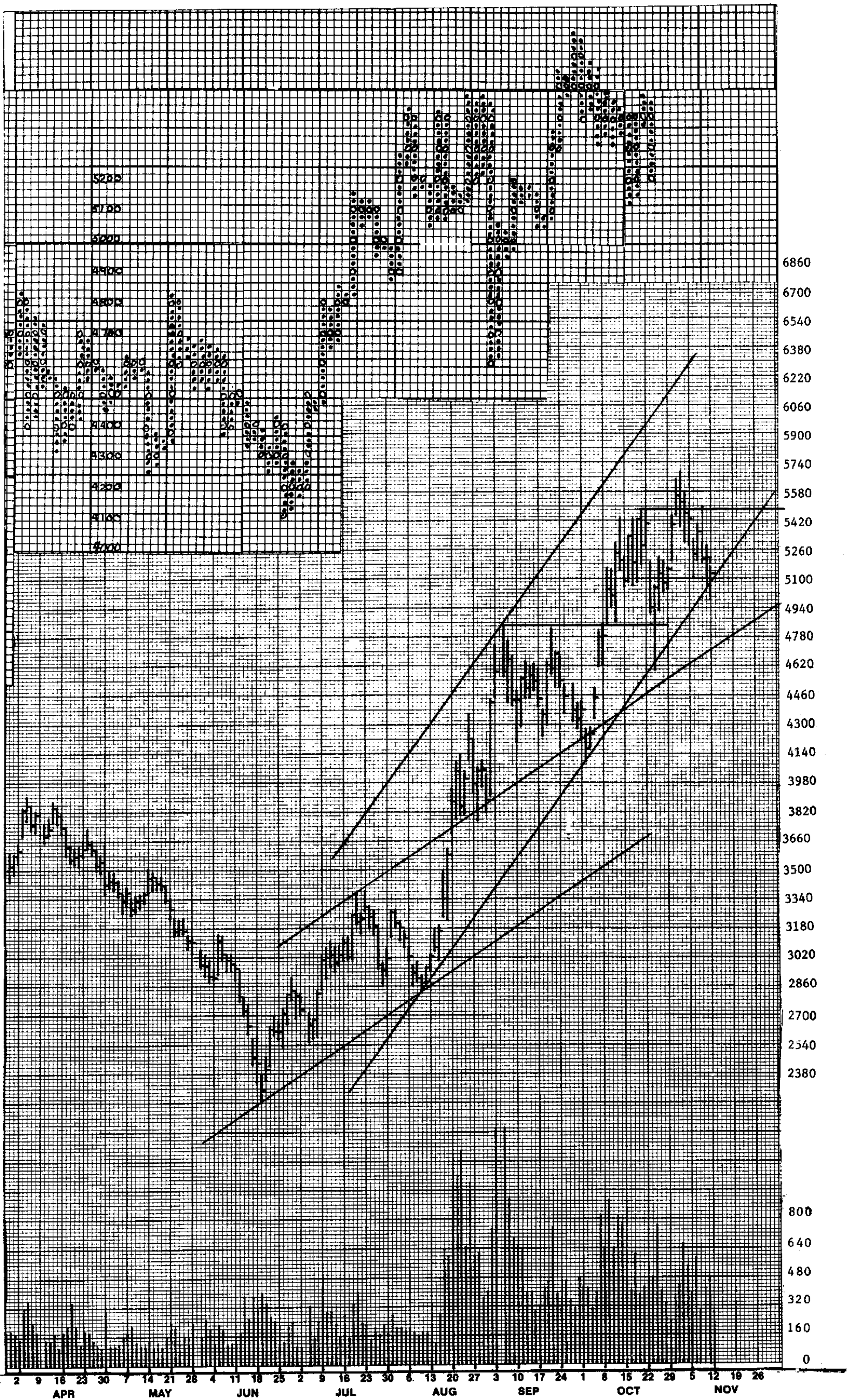

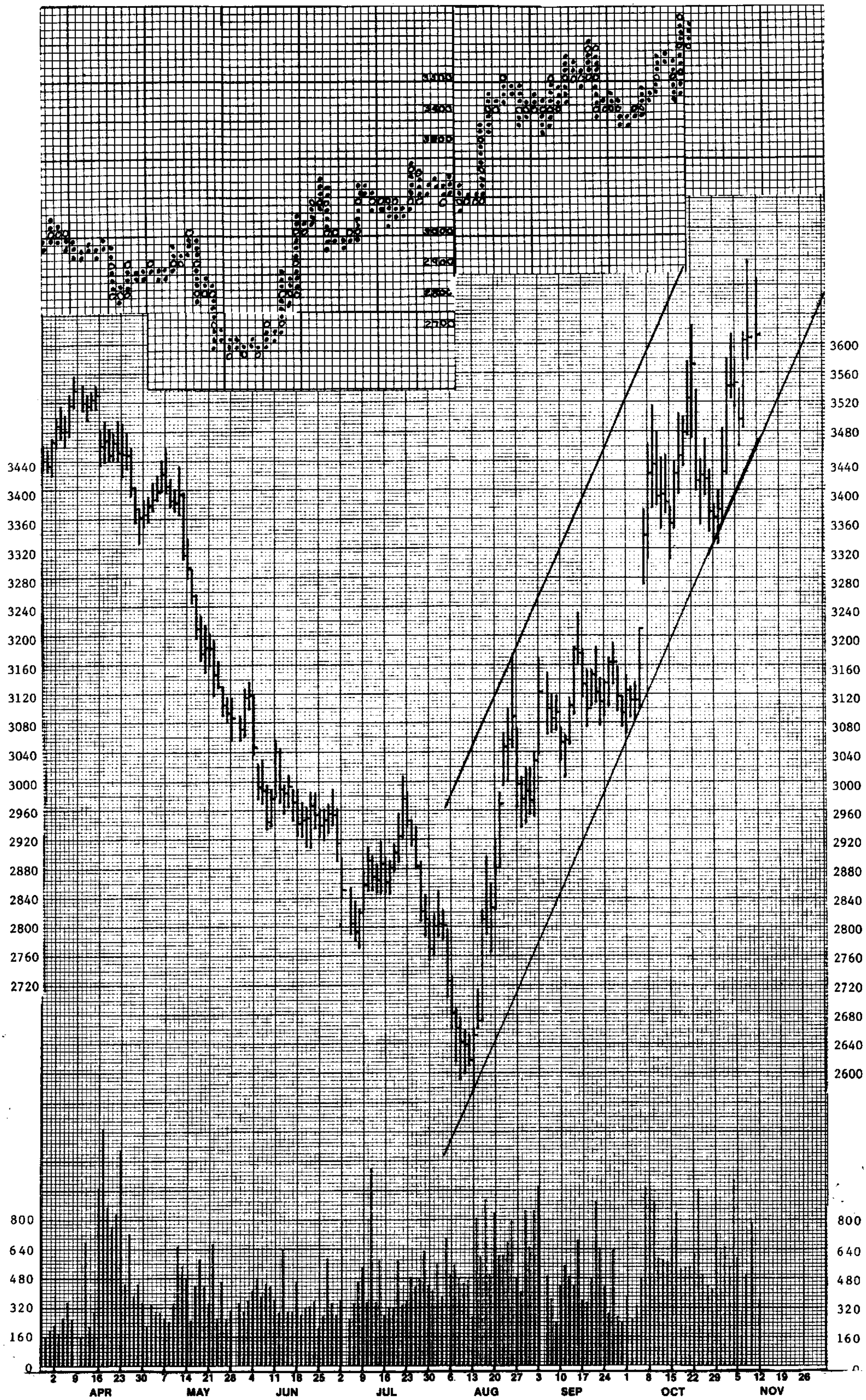
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INDEX CHARTS

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MACHINERY GROUP
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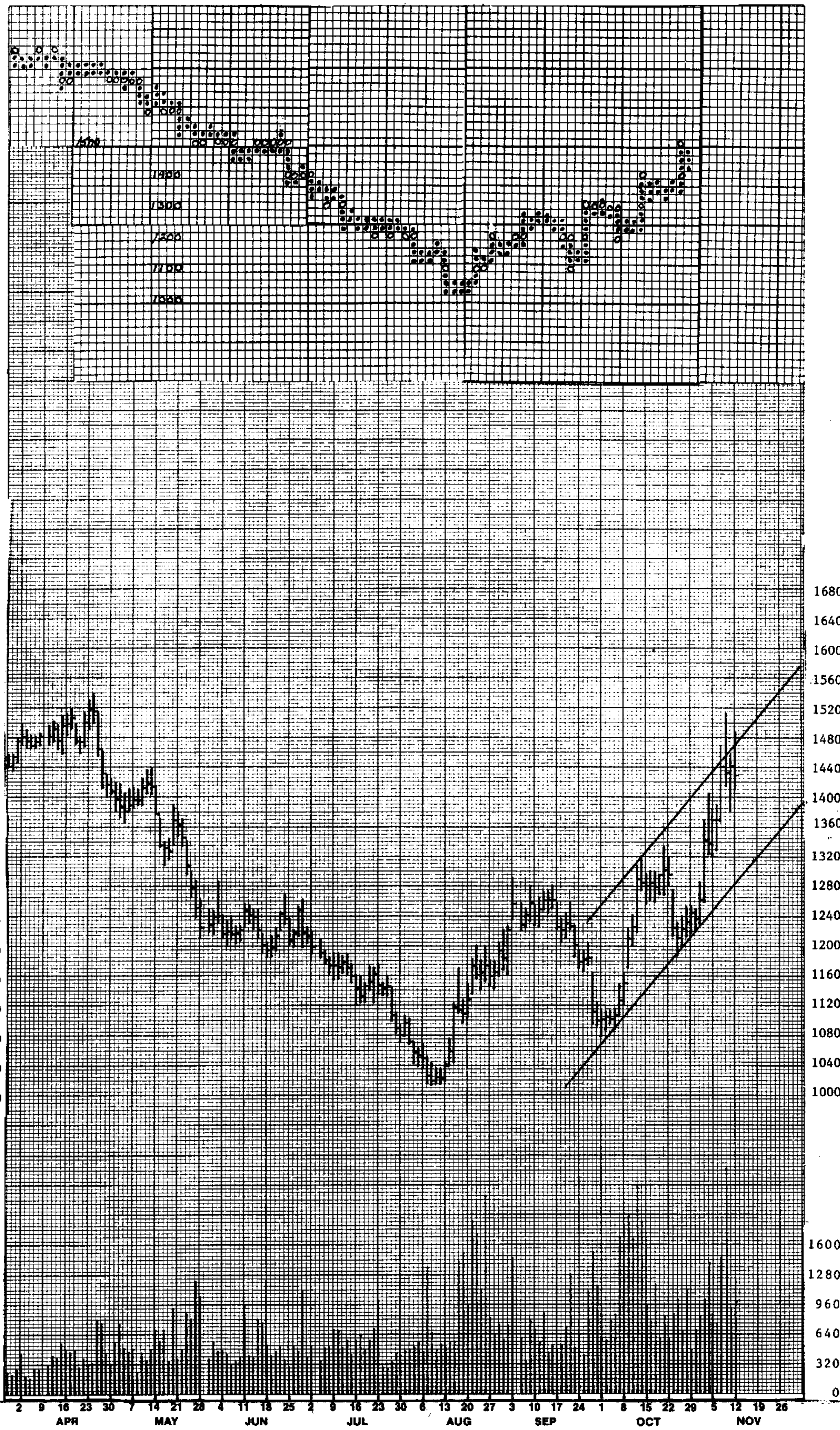

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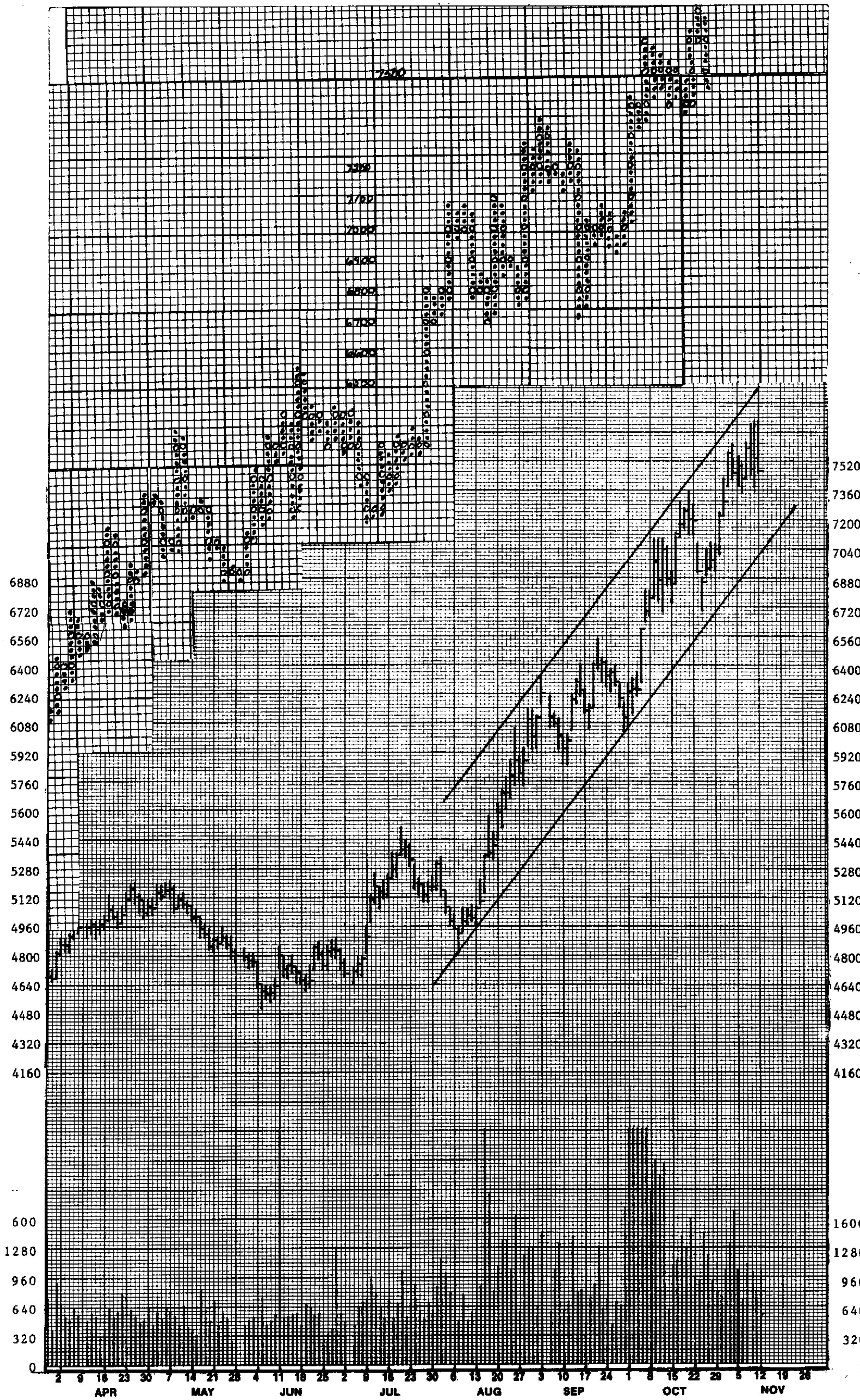

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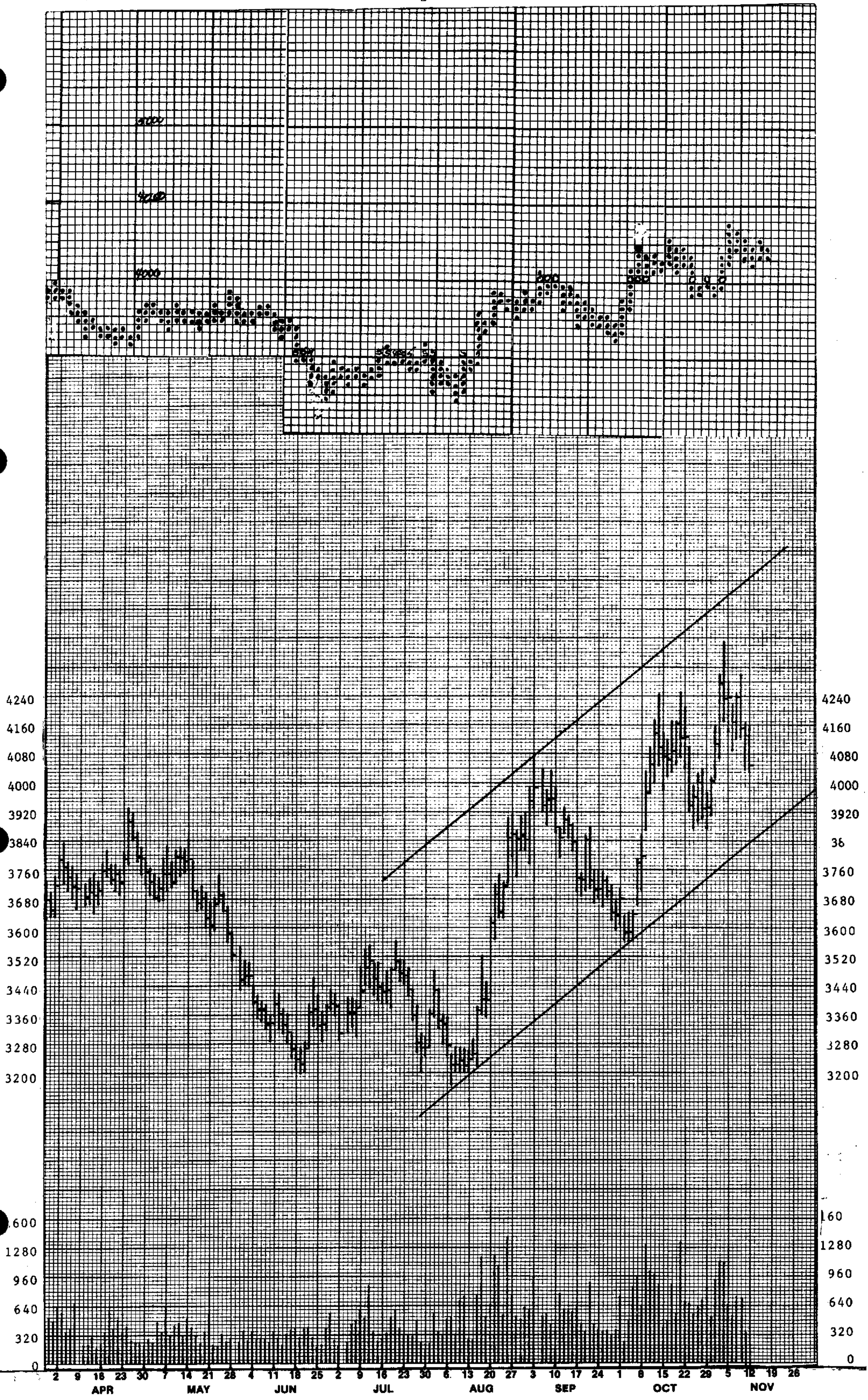

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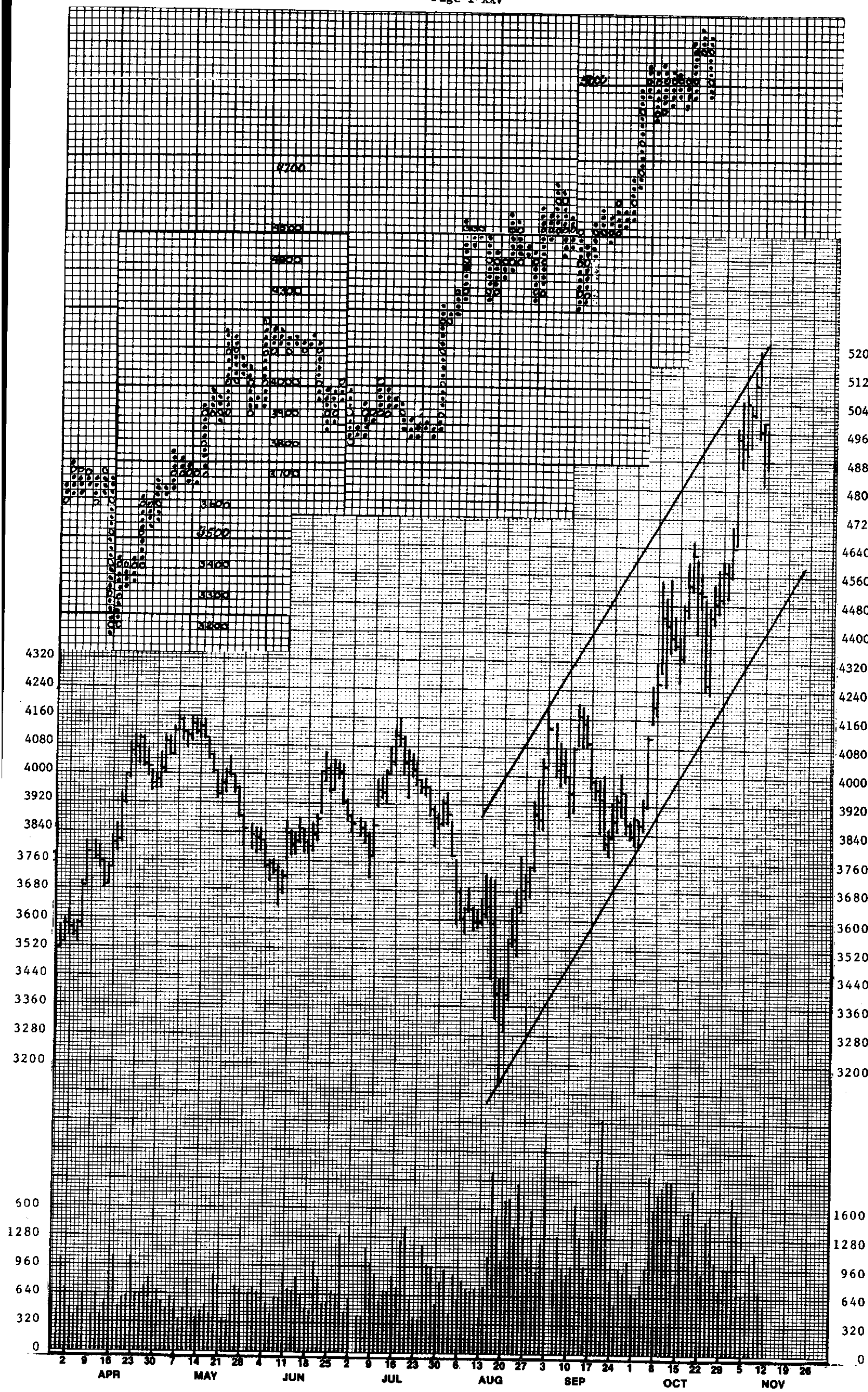

SMI

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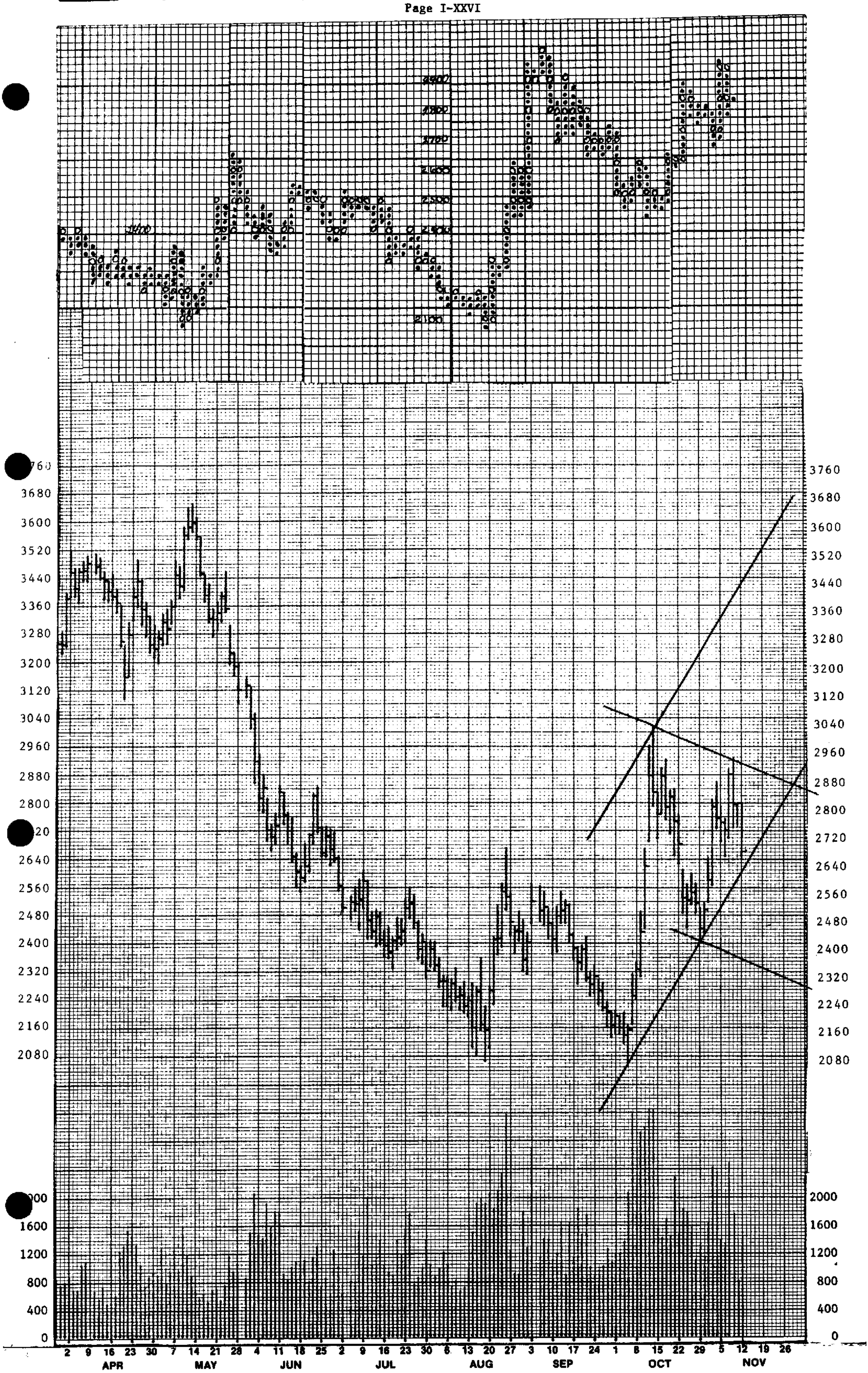

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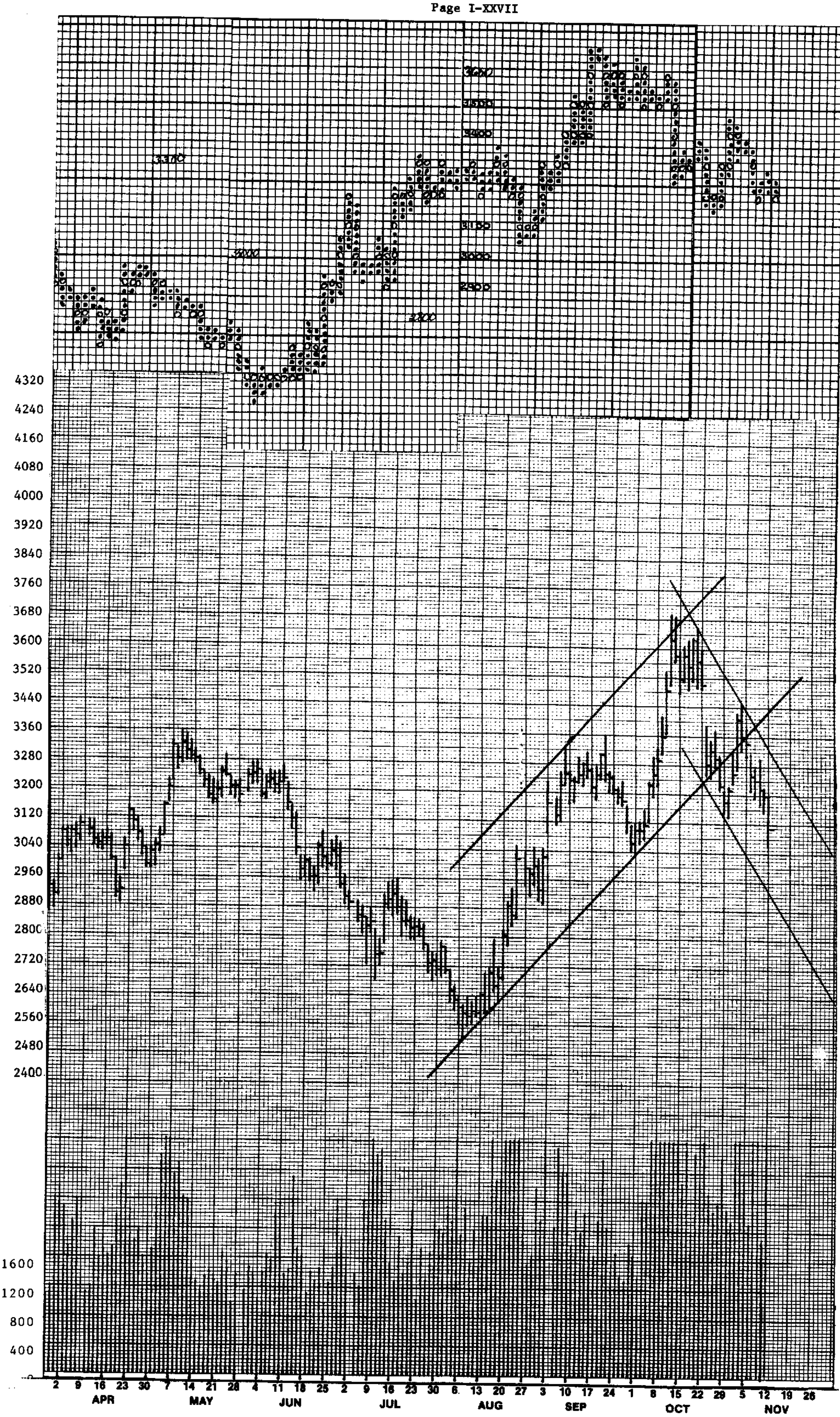

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SEMI-CONDUCTOR GROUP
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