SMI
Stock Market Institute, Inc.

TRENDS AND TRADING RANGES

December 3, 1981

During the past four weeks, the interest in the upside of the market seems to have grown. This is especially true over the past week and a half, which has brought the most aggressive upswing since the automatic rally. Since the trading range has been in effect now for over two months allowing sufficient time for the build up of a rather impressive count, this increased interest in the upside takes on special significance because it may foreshadow an upcoming upside breakout. That possibility warrants an extra careful investigation of the market's present position. If it is ready to begin the correction of the June to September decline, we want to be ready to jump aboard. However, if the last rally is just a smoke screen that is being used to cover up a continuing negative picture, we want to be aware of that fact as well.

One way to judge the significance of a short term rally or reaction is to see what it looks like when reduced to postings on the weekly chart of the Wyckoff Wave. Those that quickly get lost in that picture are of little importance. Those that stand out, however, are potentially of much greater significance. The most recent rally certainly does stand out.

The development of an important rally well into a trading range brings with it the possibility of being a sign of strength. In order to qualify, a rally needs to have good price spread and volume. This sets the stage for the reaction that follows to become the last point of support should the volume contract significantly and rapid price support be met. In the case of the rally of the past two weeks, it cannot be denied that there was good price spread on the upside. There is a problem, however, with the volume. Instead of expanding as would be expected, the level of trading was the lowest of any week since the beginning of the trading range. This suggests that the rally was not a sign of strength, but just another in a series of indications of impatience among investors.

The week in which the bulk of the rally occurred happened to be a shortened trading week due to the Thanksgiving holiday. Therefore, there is a tendency to discount the lower volume. This is dangerous. If the interest in the rally was really genuine, the other four sessions in the week could have taken up the volume that would have been traded on the holiday. The volume is what the volume is and since it does not seem to be saying the same thing as the price there is a problem that must be resolved. The resolution could come on the next attempt to react if the volume remains relatively low.

Another important point worth noting about the long term picture is the continuing respect being shown to a support line drawn under the 1980 low and the low of this past September. The two tests of the September climax that have occurred each provided an opportunity for that support to be weakened by a penetration. The reaction that now seems needed can further strengthen this line by continuing the pattern of respect. If so, it seems reasonable to conclude that the market is being squeezed by a major apex and that significant action should be in the near future. Should the next reaction or a later one penetrate the support line, the last good reason to look for a resumption of what had been seen as a major uptrend a year ago would probably be gone. We could then look forward to a working out of the count that now exists on the longer term figure charts, which only indicate a halfway correction, and then the confirmation that a major down trend has taken control.

The daily chart of the Wave includes the action of a couple of sessions not reflected in the last posting on the weekly chart. These do not help the case of those who have been looking to this rally as the one that breaks the top out of the trading range. There is also not much comfort given to those who want to see the last rally as being an important sign of strength.

First, let's consider the situation from the standpoint of those who are looking for an immediate upside breakout. This appears to be based totally on hope, probably created by the making of a new high, and not on any sound evidence. In fact, the evidence appears to be very much against an upside breakout. It begins with the overbought condition of the Technometer, which clearly indicates that the market is vulnerable to a correction. The establishing of a positive Force could postpone the reaction, but other than that it seems certain.

Probably the biggest problem facing the market right now is the obvious lack of harmony between the Wave and O.P. The O.P. has had to work very hard to get the Wave up to its present level. All this effort without a corresponding result is reason for concern about the future of the upside. The last time we saw this type of disharmony was just prior to the last big sell off, it is not justifiable to say that the same thing will happen this time, but the warning should not be totally ignored.

A factor that makes the disharmony between the Wave and O.P. even more troubling is the slight penetration of the resistance level on moderately heavy volume that occurred on Tuesday. This represents the beginnings of a potential upthrust, which when combined with the overbought condition and the inharmonious action is not very comforting.

Although there are what seems to be a large number of negative indications present, the last rally was not without its positive accomplishments. This was the decisive breaking of the intermediate supply line. As long as that line was exerting an influence on the market, no rally of any significance was possible. Now that it has been removed, a meaningful rally is at least possible as long as nothing else goes wrong. It should be noted, however, that the breaking of the supply line still needs to be confirmed, which means a reaction.

From what we can see, a great deal appears to depend on the character of the next reaction. A drop back into the middle of the trading range on continued relatively high volume would be the least desirable development. It would make for a poor confirmation of the break in the supply line and it would tend to prove the existence of an upthrust. If such a reaction was then followed by an attempt to rally that came on low or decreasing volume and was topped by the resistance level, it would represent a test to the upthrust and indicate the market to be in serious trouble.

There is one type of reaction that can accomplish those things that need to be accomplished and still not create a major problem. Such a reaction would have to meet support quickly, which should be taken to mean well above the halfway point of the previous rally. It also needs to come on a significant decline in volume. This only type of reaction that can provide this possibility. Anything else points to at least a continuation of the trading range.

When a reaction seems needed, the indication of that need and the beginning of the reaction seldom come at the same time. The reason is the lack of a cause or the lack of a completed cause. The intraday chart shows that to be the case now. All that has happened thus far is that the uptrend support has been broken. The five point figure chart shows a developing congestion just below the current level. This could become part of the count for the indicated reaction, but it is impossible to say how much or at what level that count will develop until a trading range takes shape on the intraday chart. Once it does, we will be able to start judging the character of the reaction, which should tell a great deal about the longer term future.

GROUP ANALYSIS

Six of the eight Wyckoff Wave stocks are also members of industry groups. Therefore, any indications that can be found concerning these groups should have an impact on the Wyckoff Wave and our interpretation of the general market.

The airline group is reflective of the Wave in that it also is in a trading range. However, the group's action within the trading range has been quite different from that of the Wave. The airlines began the trading range with a good show of strength on the automatic rally, but have been under-performing the Wave ever since. This has resulted in the creation of a down trend channel within the trading range. This could be a form of wearing out action that may end with a spring position developing. However the end comes, the Wave is not likely to get much help in any efforts at upside progress from UAL until the downtrend is broken.

Another stock that is not likely to be of much help to the Wave in efforts at upside progress is General Motors. This is because the auto group continues to be the worst looking of them all. It may have climaxed the decline on the move down to 960, but even if that is true a long rebuilding process seems likely. A very recent spring and test action is an encouraging sign, but the figure chart indicates only a small advance after which the building process should resume.

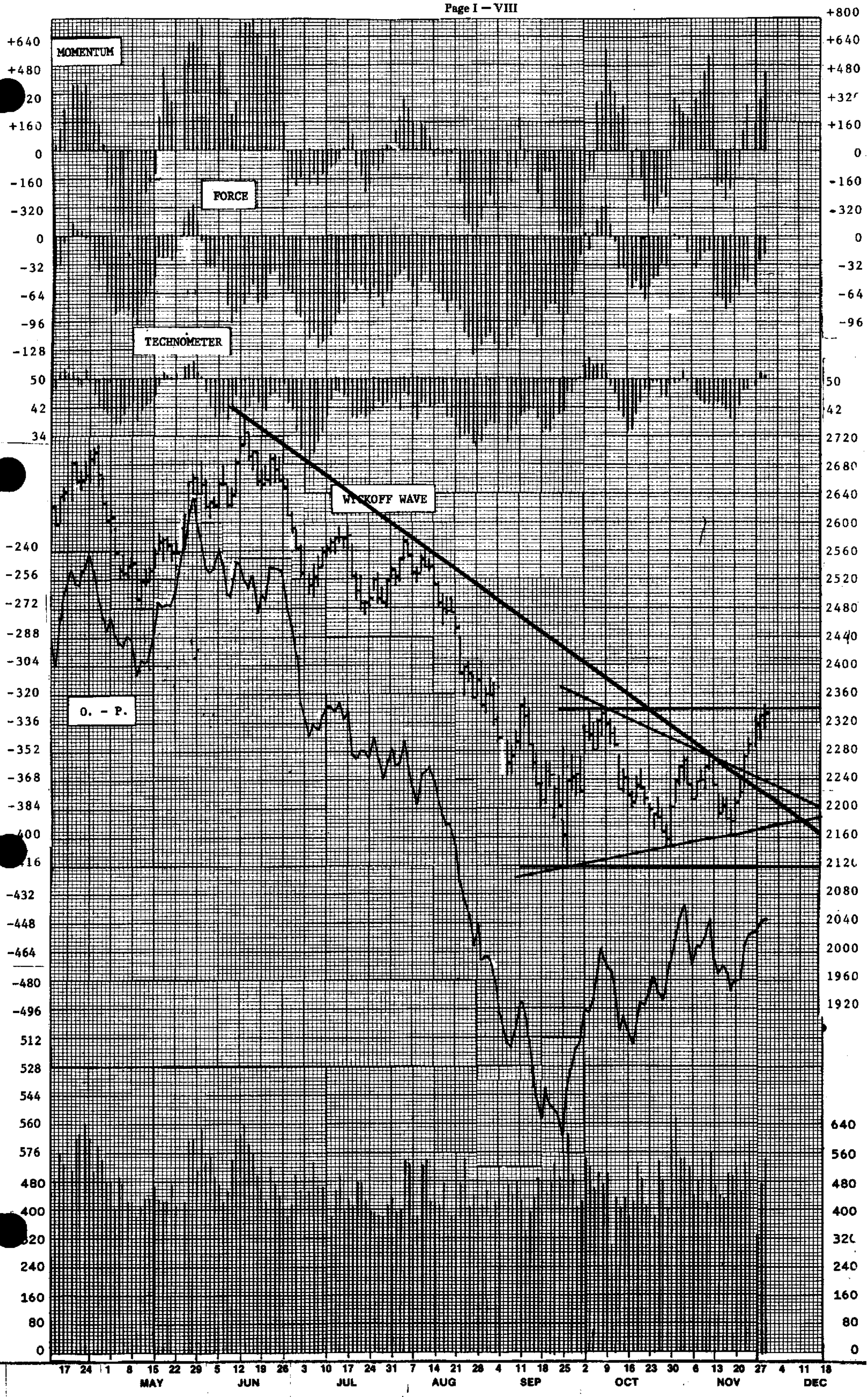
The upside efforts of the Wave should get some help from its chemical group component Union Carbide. Here, the important supply line was broken several weeks ago and the success of that break has already been confirmed as has the existence of an uptrend. At the moment, the group appears near to being overbought, so immediate upside help to the Wave is probably not likely. However, the figure chart does indicate the possibility of higher levels later. The first objective is between 2600 and 2700. However, the addition of a second phase to the count suggests that this group may make a run at its previous high. This would probably help the wave a great deal.

I.B.M., which is the computer group element in the Wave, may be a help to upside efforts, but this uncertain. The computer group has broken and confirmed the breaking of the previous down trend. It has also made a good recovery from the climax low. The problem is that a new trading range appears to have taken shape and one attempt to break out of it has failed. Often this means that the preparation made prior to the failed attempt can no longer be considered. That would leave only the preparation of the past two weeks, which is quite small. It should also be noted that this group was a poor performer in the last rally. This is not positive and suggests that any help the Wave is going to get in the future is well in the future. Without I.B.M.'s help, the Wave is likely to have difficulty making significant upside progress.

What it does not get from I.B.M., the Wave may realize from General Electric. The electronic group has been very strong. It has already fulfilled one upside objective and appears to be working on a new count around the 5000 level. If the support line can survive the next reaction, the group could be ready to run again hopefully taking GE with it.

The final group represented in the Wave is the oils with Exxon. Exxon is the most heavily weighted stock in the Wave. Therefore an important move in it would have considerable impact on the Wave. The oil group has begun to look more positive. It recovered very nicely from the climax and has been holding in the upper half of the trading range, which is also a positive indication. During this period, potential has been built at the 3600 level. This could take the index back to its August high. If Exxon participates in this, it will be a big help to the Wave. Before this can happen, though, there will have to be a resolution of the potential upthrust that has just started to take shape.

The overall indication from the groups is mixed. It does appear that the upside efforts of the Wave will get help from GE and UK. They probably will not be helped much by GM and any help from UAL is uncertain until the down trend is broken. IBM and XON may hold the keys to success or failure. Their groups do seem to have a least some potential. If it is realized and the Wave stocks move with their groups, the Wave should get the boost it needs. If not, more trading range activity likely lies ahead.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SMI **INDEX CHARTS**

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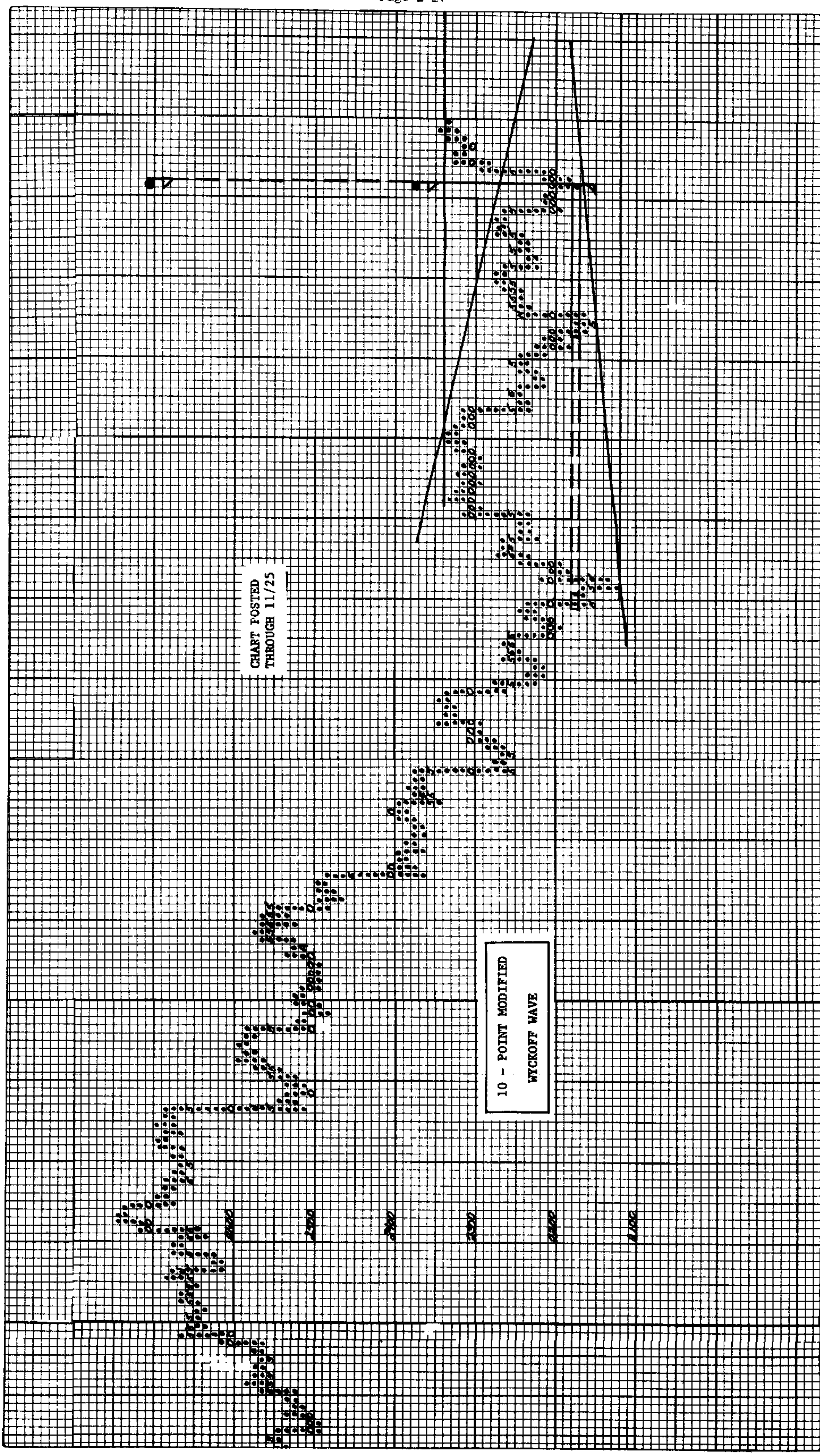

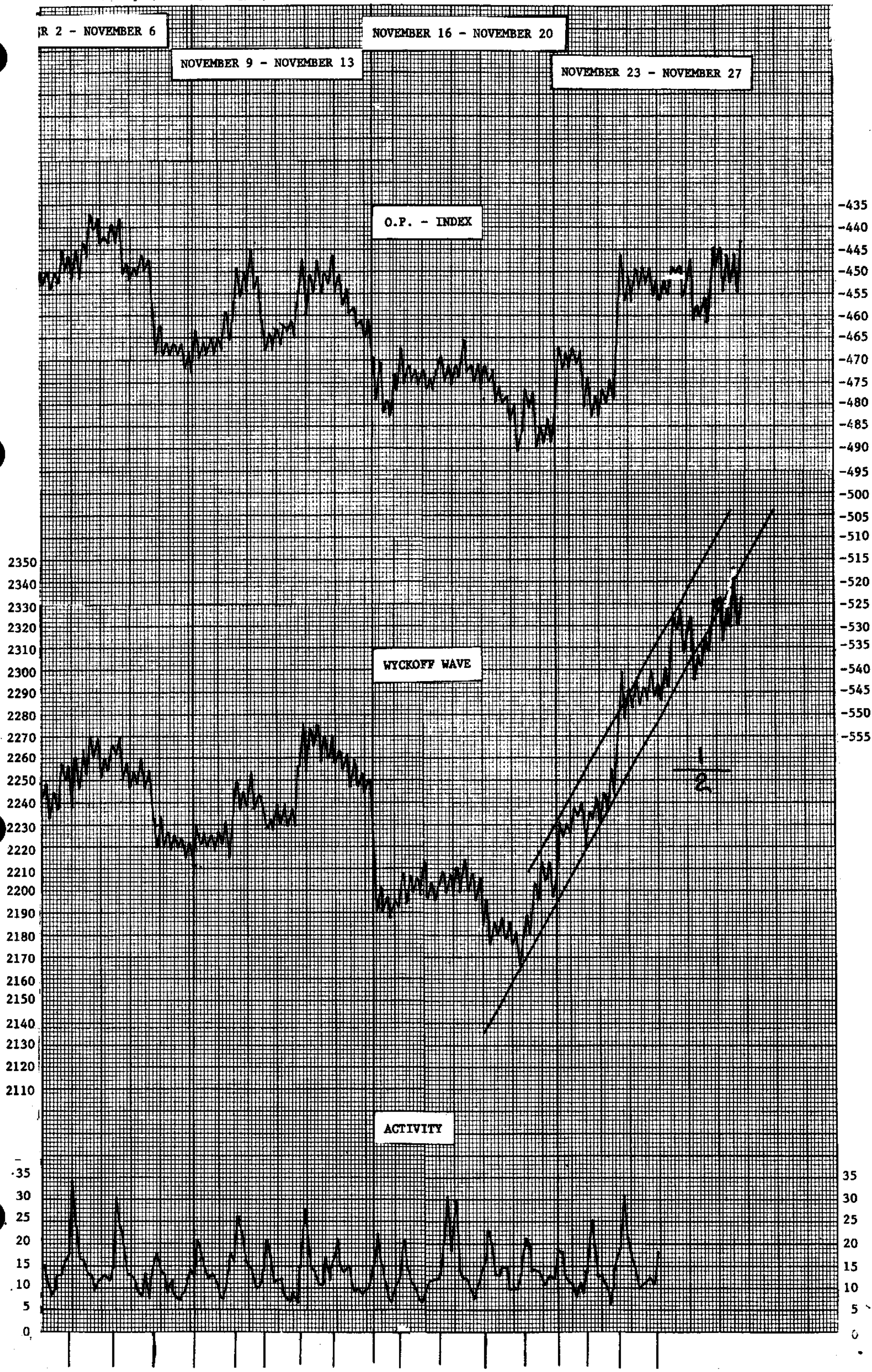

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NOVEMBER 9 - NOVEMBER 13
NOVEMBER 16 - NOVEMBER 20
NOVEMBER 23 - NOVEMBER 27
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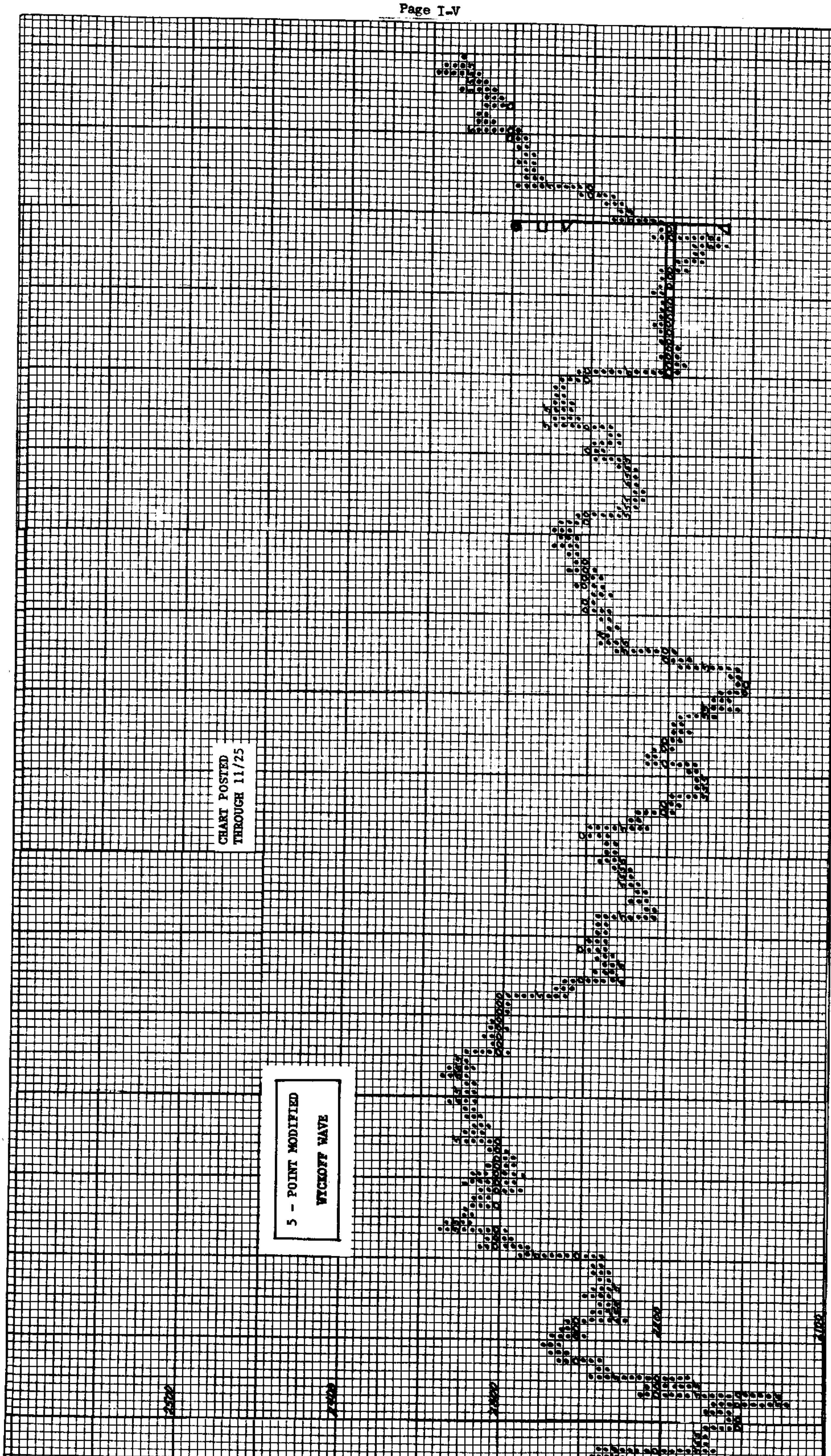


CHART POSTED
THROUGH 11/25
5 - POINT MODIFIED
WYCKOFF WAVE

INDEX CHARTS

STOCK MARKET INSTITUTE, INC.

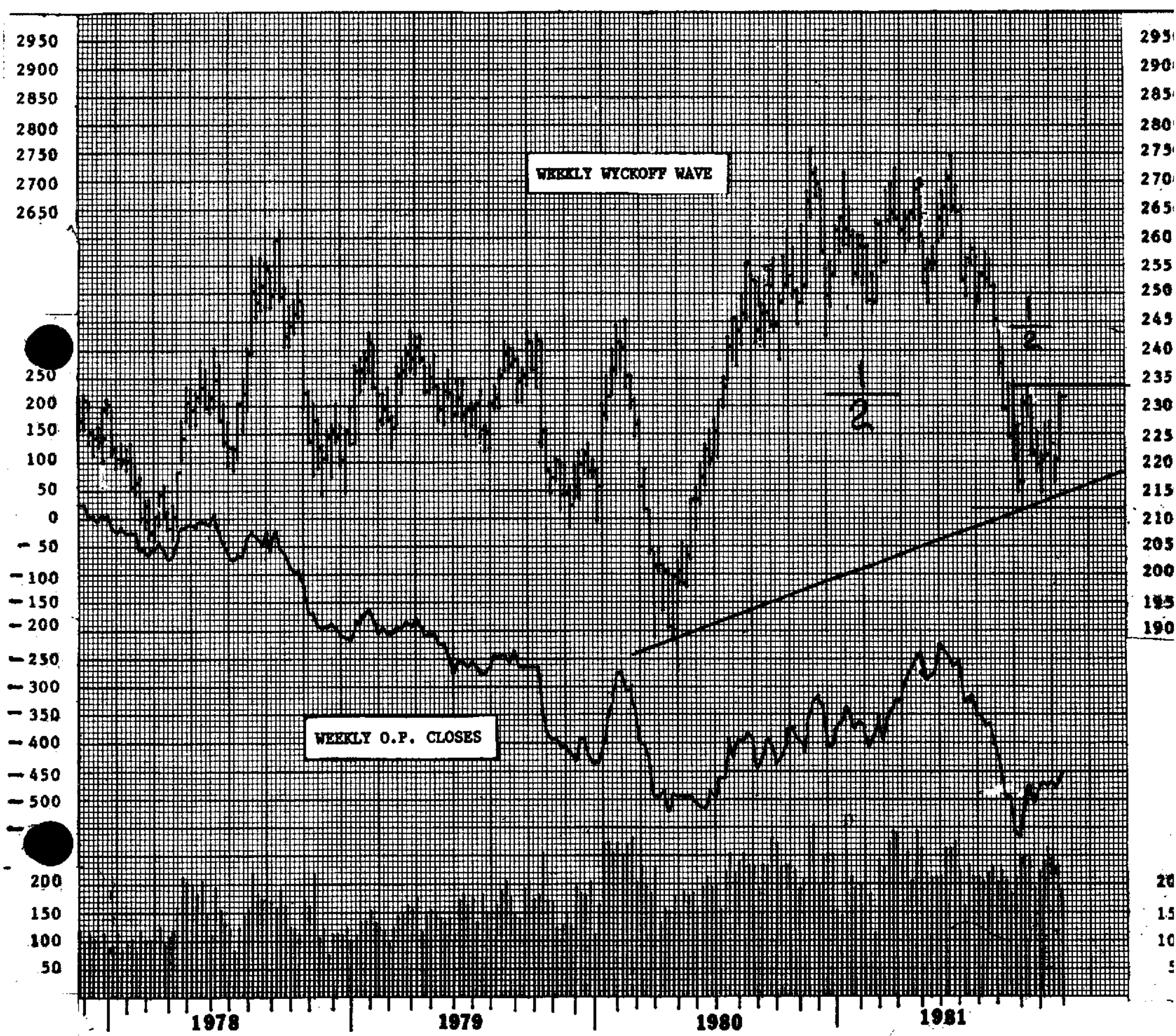
NOVEMBER 25, 1981.

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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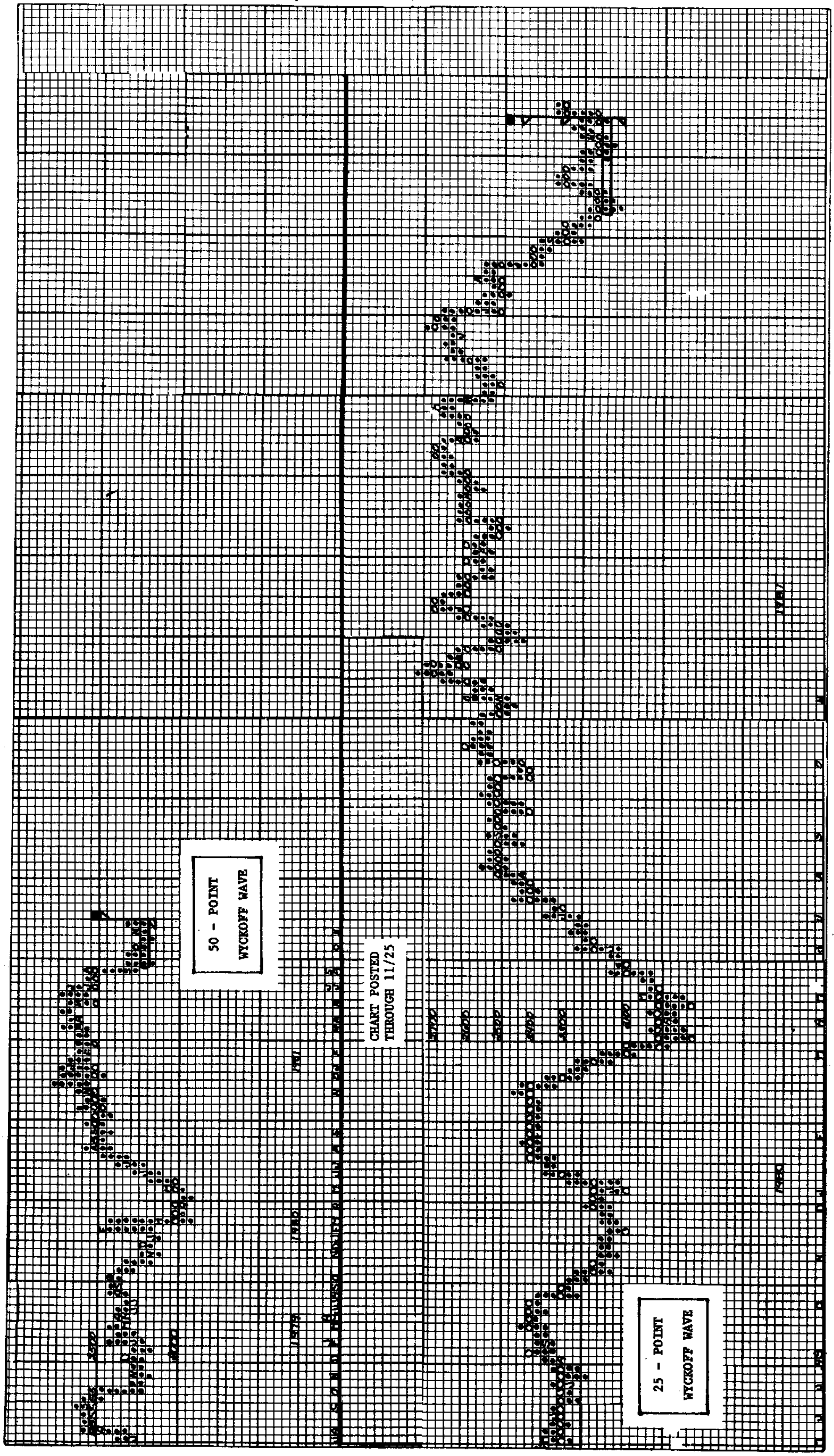
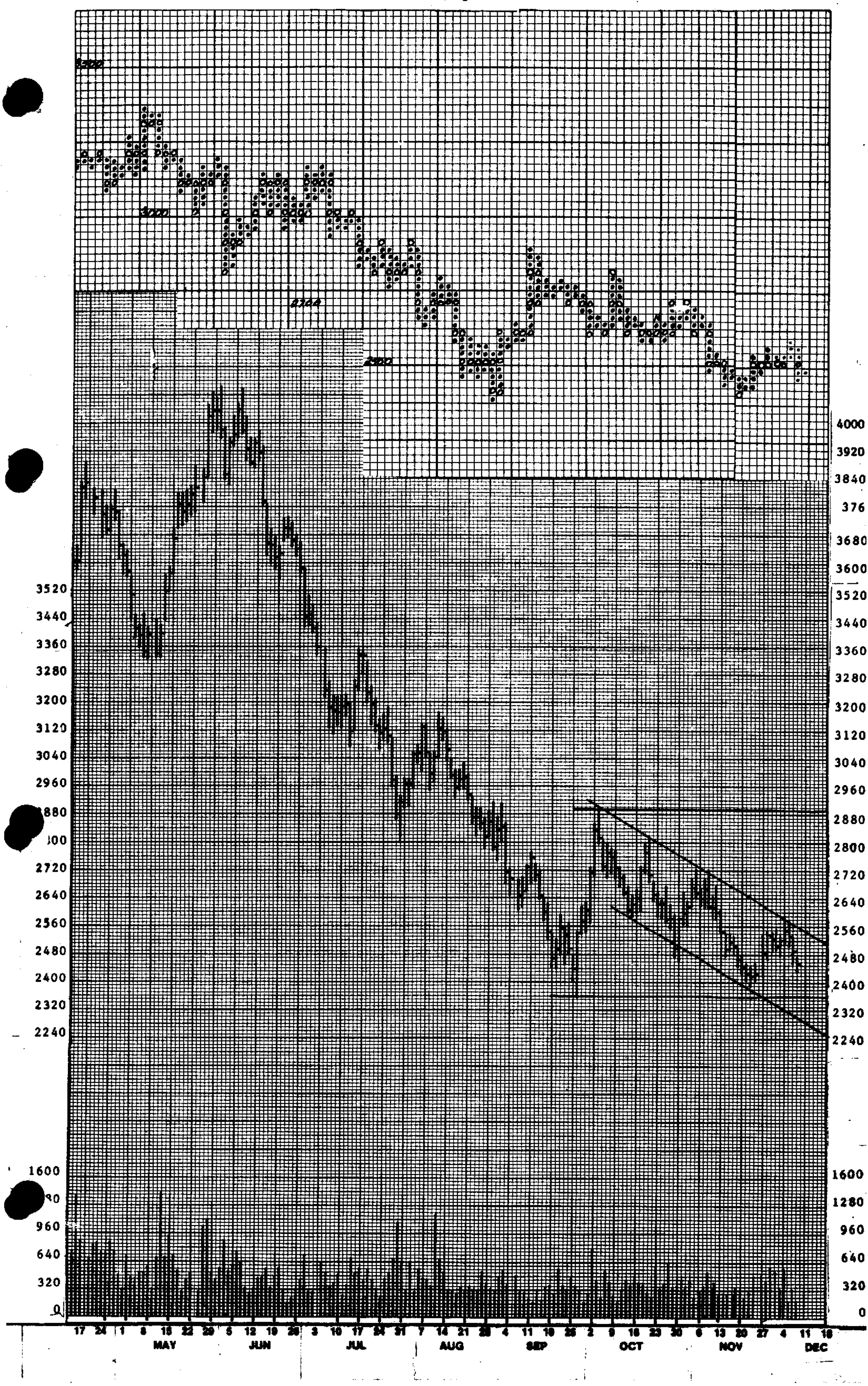
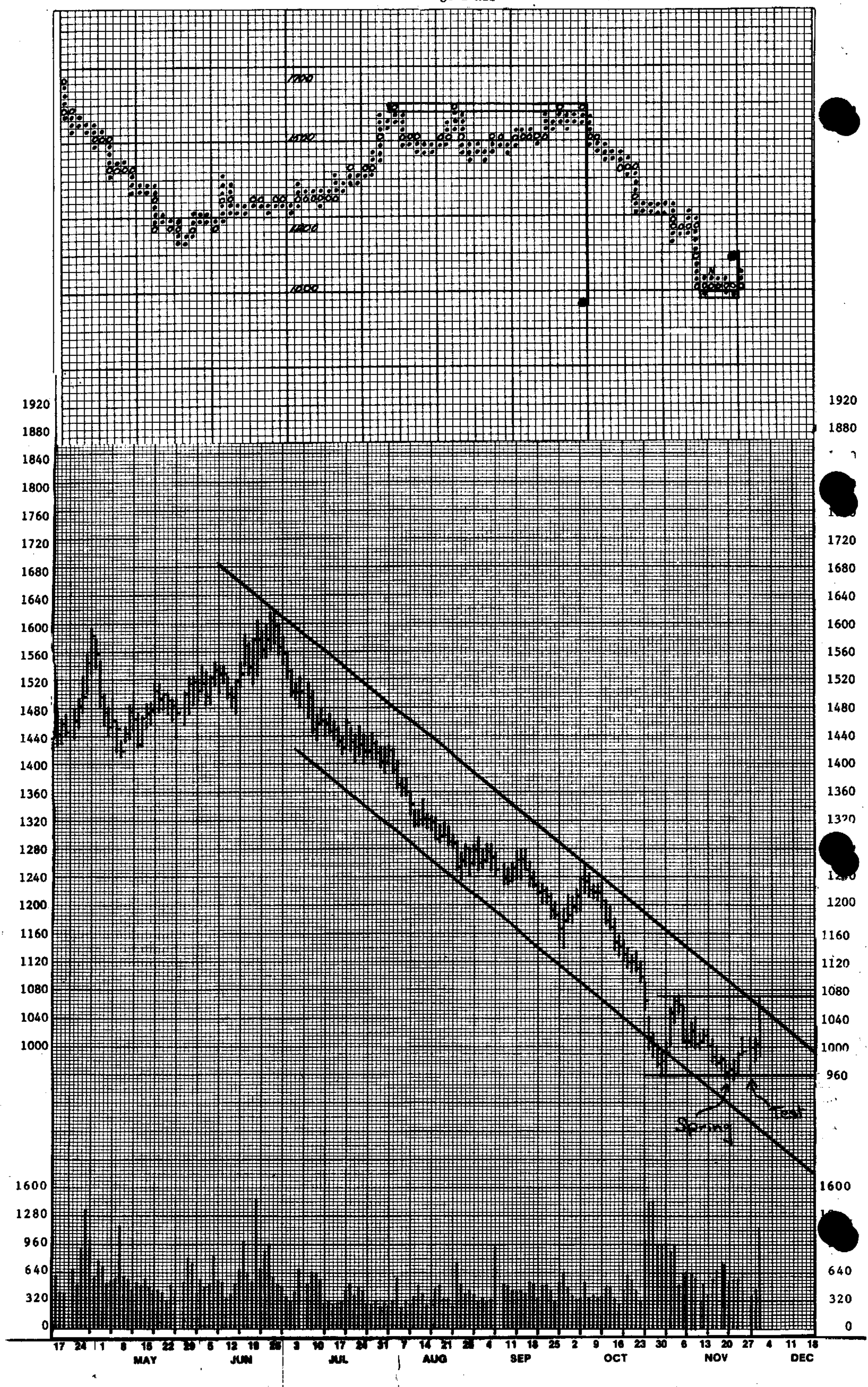


AIRLINE GROUP
•6(7TW+2PSA+2DAL+3NWA+4UAL)

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JUL
AUG
SEP
OCT
NOV
DEC

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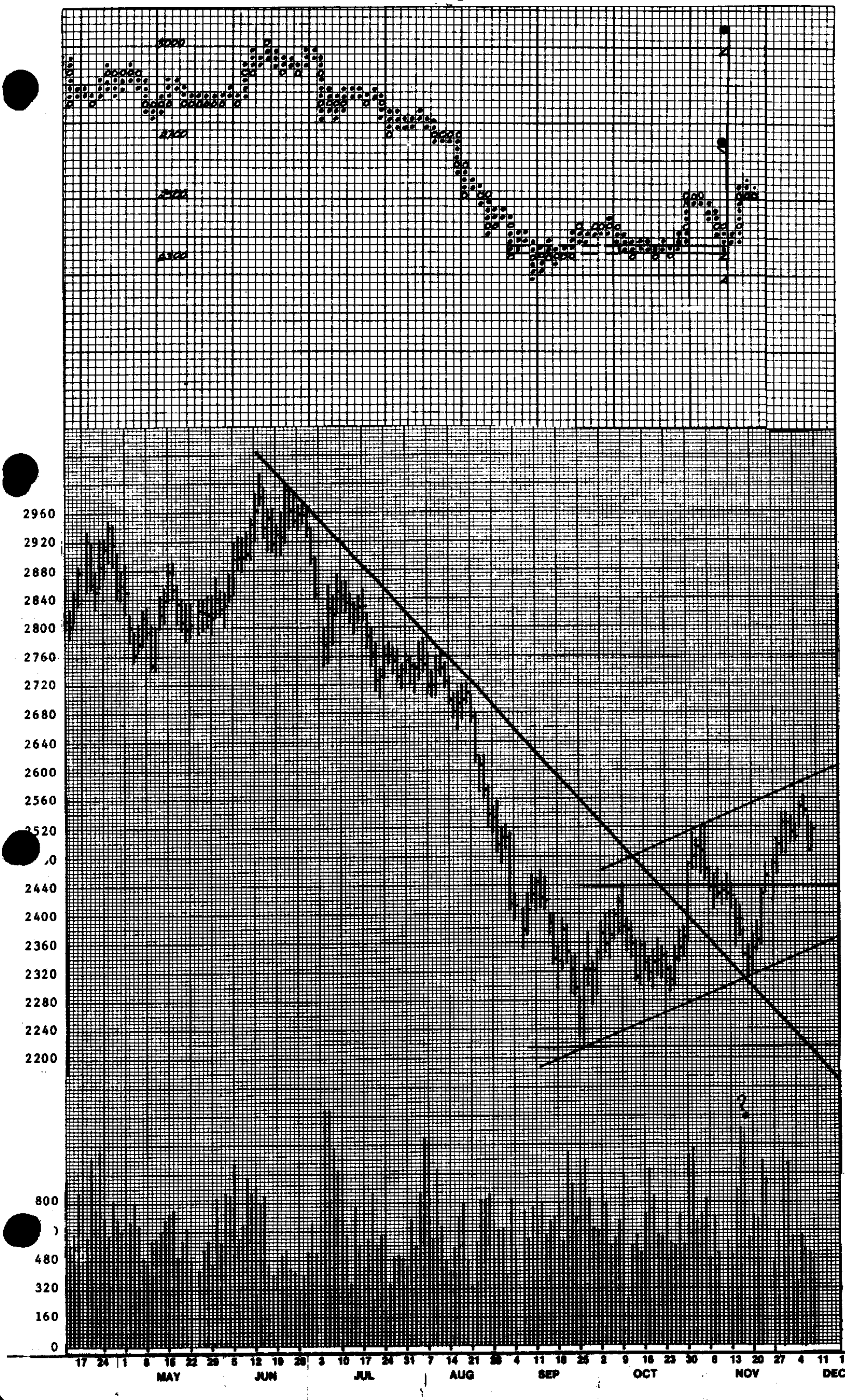
CHEMICAL GROUP
2(6ALD+9DOW+6DD+3PG+5UK)



COMPUTER GROUP
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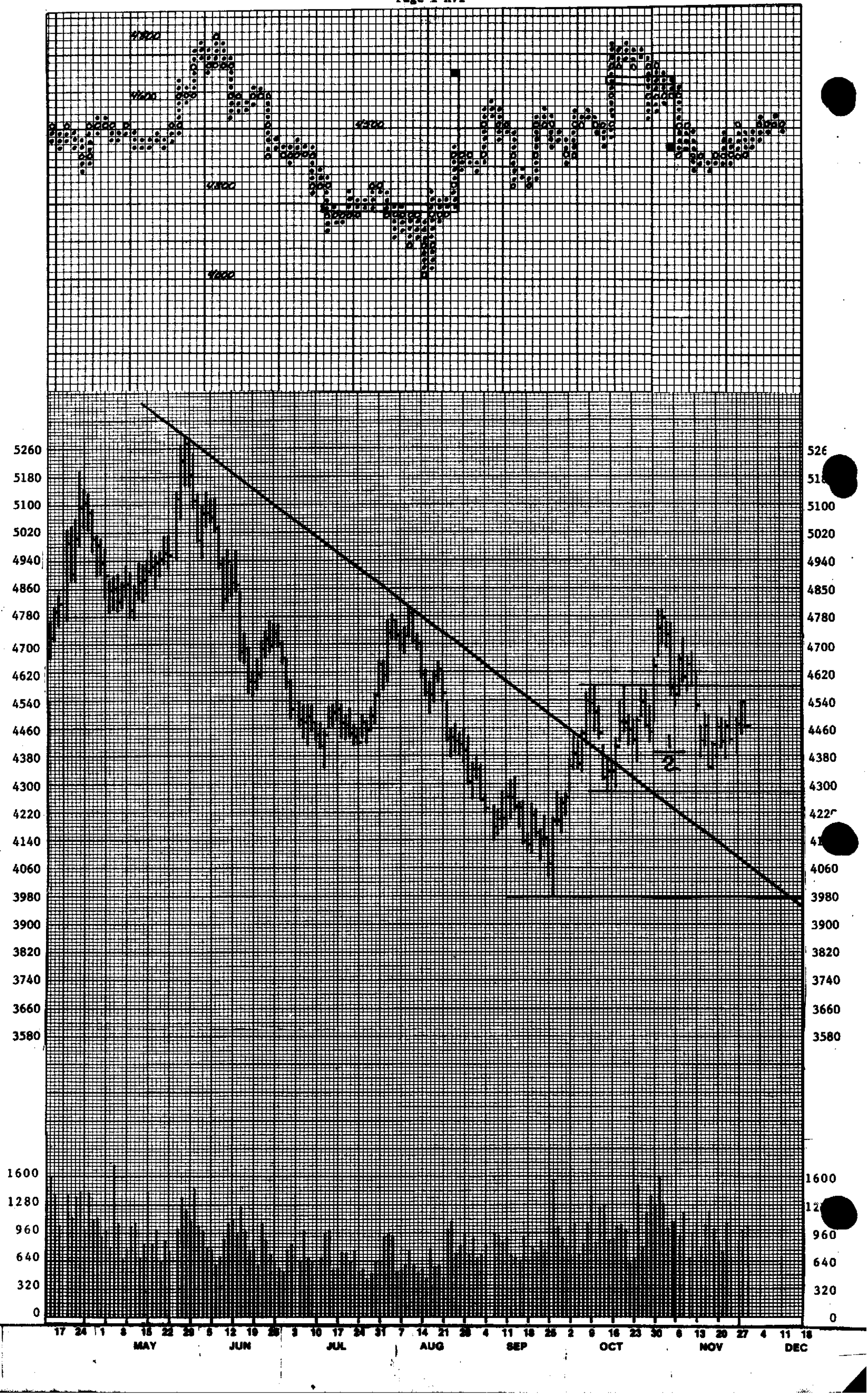

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ELECTRONIC GROUP
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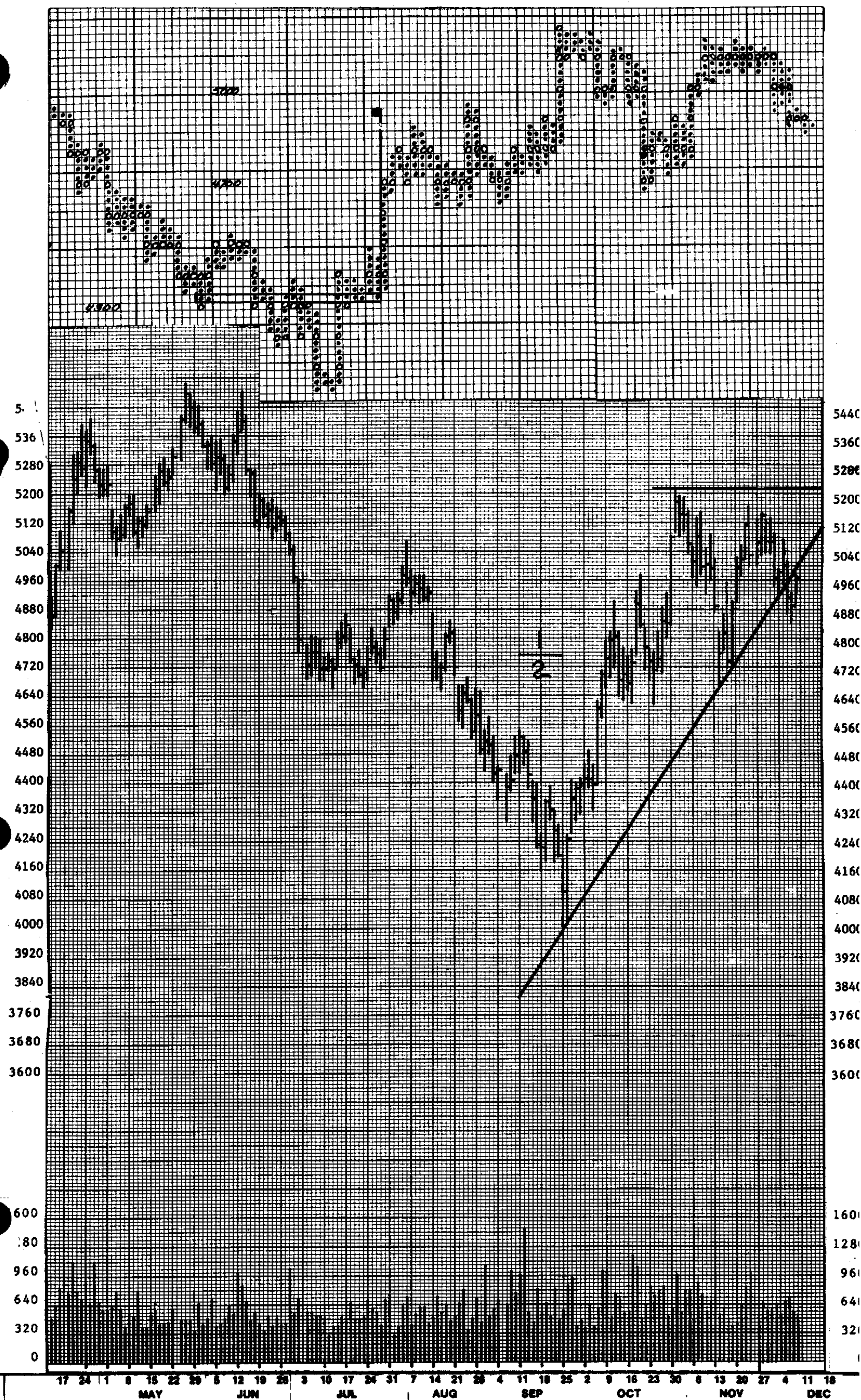

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OIL GROUP
3(6ARC+6XON+8MOB+6SD+6SN)