STOCK MARKET INSTITUTE
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TRENDS AND TRADING RANGES

Monday, January 11, 1982

How many times will the market try to make progress in one direction before it gives up and trys to make that progress in the other direction? Unfortunately, there is not a fixed answer to this question. If there was, we could all be rich without trying. Even though the market does not make things this easy for us, it does tend to give signals as to when it is beginning to run out of effort. Since early December, we have started seeing some of these signs. The fact that they have persisted now for over a month is reason for some concern. Has the upside effort that has made the trading range of the past three months look so positive been exhausted, or are we seeing only a temporary break in the action? The answer to this question is critical. It determines how we should play the game from this point forward. Therefore, arriving at an answer should be a subject for careful consideration.

The long term investor may be unaware of any potential problem at this point. It is obvious from the weekly chart of the Wyckoff Wave that has been losing ground during the past several weeks, but the character of the sell off does not appear to be especially negative. In November, there were three weeks of good gains. The action since then seems to be little more than an extended correction of that advance. The fact that the market has had to work so hard to give back what amounts to only about half of the previous gain can be taken as a positive development.

Part of the reason that the Wave is holding its previous gain so well may be traced to the unusually low volume in the final weeks of 1981. This is not a negative development. If anything, it should be somewhat positive because of the combination of decreased price progress and reduced volume. The problem is that the action of the first week in the new year indicates that lull in trading is not going to continue. With the market already pointed downward, the renewal of a more normal level of trading could rather easily force the Wave below the halfway point, which would greatly diminish the positive character of the reaction.

Although a drop below the halfway point would be negative, it would be insignificant when compared to the negative impact of a break below the long term support line, which now runs about eighty points below the current level of the Wave. The market can likely survive a drop below the relatively minor halfway point, but it is very uncertain whether it could survive the breaking of this major support.

Unless the market is able to use its present level as a last point of support and begin to move up aggressively, the weeks ahead should be approached very cautiously by the long term investor. They could still result in this area being a major last point of support, but this would require some very delicate price and volume developments.

First of all, the price will have to continue resisting the downside pressure. It can do this even if the halfway point is passed by holding the week to week declines to small losses and by regularly testing the upside. This second point will help keep virtually all the volume from coming in on the downside, which could result in some very unwelcome momentum. The idea is to get the Wave to ease its way down to the long term support line and not plunge on through it. If this can happen, buying would be justified. The case for buying in a situation like this would be helped if the O.P. is able to penetrate its September low, which would result in an important divergence.

The longer term figure charts (25 and 50 point) do not help sort out the current uncertainty. Both are indicating higher objectives, which does not seem to confirm our concern over the future of the long term support line. They suggest a continuation of upside progress at some point to a point between 2400 and 2500. The problem is they do not say at what point nor do they clearly indicate what could happen between now and when that point may arrive. Hence, we have the justifiable uncertainty about the support line.

The fifty point chart says the Wave is going to 2450 or 2500 without question. The twenty-five point chart, however, adds more detail. It indicates a move to the 2425 to 2475 area, but also points to a resting point around 2300, which has happened. Around the 2300 level, a new area of potential has started to take shape. If the market uses its present level as an important last point of support a broader up count at the 2250 level would be in order, which would result in an objective range of 2700 to 2825. Should this happen, extensive buying should be done following a jump across the creek. It would be inadvisable, however, to do much or any of that buying right now. The small upside objective that has been fulfilled may be all we are going to get. The new count could be for the downside. Buying in anticipation of a jump across the creek without a very good reason such as a spring could lead to serious problems in the near future.

If the long term picture has such a positive option open to it, why is there so much concern about the downside? The reason, of course, is that the positive option is only one of two and when we move into the intermediate picture it appears to be the lesser of the two.

Although it is justifiable to say that the intermediate trend is horizontal due to the fact the Wave is still within the trading range, it should not be overlooked that a down trend has been in effect for four weeks now. With the Wave positioned almost exactly in the middle of that trend channel, there is no clear indication that the trend will be broken soon. The nearly oversold reading of the Technometer suggests a rally, but it does not say that such a rally will be enough to break the supply line. If the Wave was in an oversold position at the bottom of the trend channel, this would be more of a possibility because there would be a better chance for momentum to build behind the move.

The continuation of a gradual drift within the downtrend for another couple weeks should not be surprising. At some point, however, an obstacle is going to be encountered. It is the support line drawn across the climax and the first two tests. Unless there has been a total shift in the character of the market, this support should be stronger than the supply of the down trend. When the support line is reached, the Technometer, O.P., and volume level may offer important clues. Is the Technometer oversold? Is there a divergence between the Wave and O.P.? Is the level of volume relatively low? If the answer to all of these questions is yes, the market should bounce off the support. If any of the answers is no, be careful. There are lower objectives that would make buying at this support painfully premature if the support does not hold.

As we move into the short term picture, things seem to change considerably. This is probably due to the fact that so much of the recent action has been sideways in preparation for something. There is a good indication in the action around the first of the year as to what that something would be. Notice the clear divergence that developed by January 4. The response to this came immediately as is often the case with short term divergences. The count established at the top of the divergence indicates an objective of 2195, which says there should be more response coming. Also, note the earlier count at the 2340 level with its objective in the 2170 area. The fact that these counts seem to confirm each other should not be taken as just a coincidence.

We tend to think of the market as an individual. Therefore, it is subject to some of the same things that we are. If we get tired, the smart thing to do is rest. Persistent effort in spite of fatigue can lead to collapse. The same is true if we do not rest long enough. The market is clearly resting at the moment. It does not appear to have collapsed. If it replenishes itself during this break in the action, the future should be positive. If it gets up and trys to start running too soon, the future will probably be negative. Watch for the signs of which is to be. They will appear.

GROUP ANALYSIS

A number of the industry groups appear to be at the beginning of important moves. This provides the opportunity to get in on the ground floor. Care must be taken, however, to be sure that the direction of the anticipated move has been properly determined. It makes no sense to get in on the ground floor if we are going to be going in the wrong direction.

The auto group is one that seems to be at the beginning of a move. The previous count has been worked out and a new one has taken shape. In view of the already depressed condition of this group, its direction would seem to have to be up, but be careful, that would be a guess.

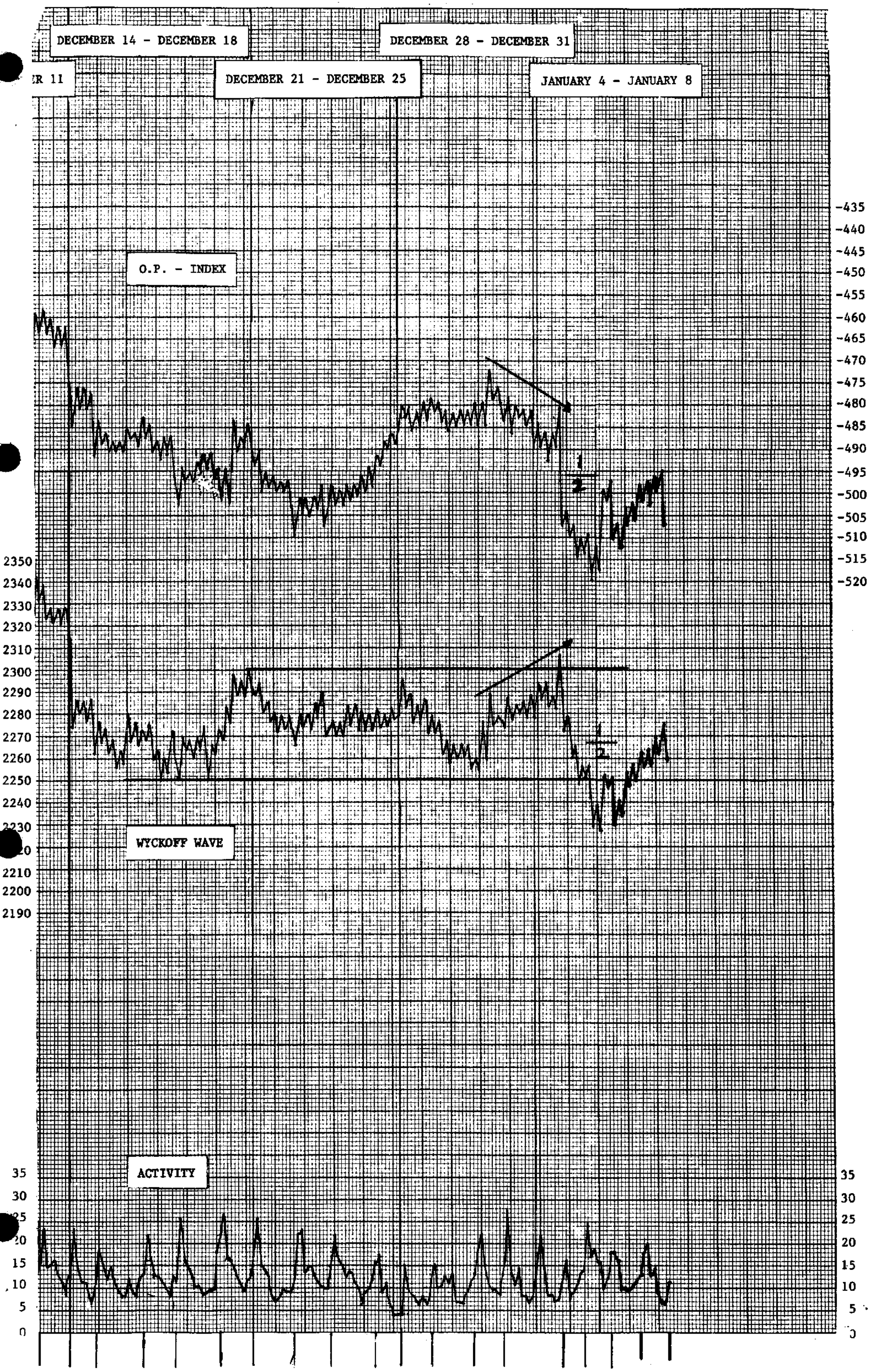
There is about three to four hundred points worth of potential in this group. That will yield either a very nice halfway correction of the previous decline, or a further sharp drop that could turn this into a two stock index. As of last Friday, the index appears to want to follow the road that leads to the halfway correction. After a relatively positive pattern with the trading range, we have a sizable penetration of the resistance level. It is either the beginning of a jump across the creek or an upthrust. The volume should determine which it is. The volume on Thursday was good on a moderate gain. Friday's gain was better, but its volume was not. In order for the jump to be accomplished, the volume pattern will have to improve. If not, watch for a test of what will have become an upthrust and then sell short.

In the building materials group, we find a much different picture, but one that suggests the beginning of a move. In December, there was a penetration of the support level into a number two spring position. The price has now returned to the support level on decreased volume. This should be the test. On Thursday and Friday of last week the response to the test began on increased volume. This all looks to be very positive indicating that buying should be considered on the next low volume reaction. Do not buy on the current rally.

The drug group does not have a spring, but it could have had a shakeout. The price has recovered nicely and is back in the trading range. However, notice that the volume has started to drop off. This says that there should be a test soon. If a buying opportunity is to develop, this will be it. Ideally, the price will hold at the support level of the trading range. From a practical standpoint, though, this probably will not happen. Watch the volume. It will likely indicate the success or failure of the test. Low volume is a must. Without it, the figure chart indicates what could happen.

At this point it would appear as though all the signs point upward among the groups that are beginning moves. This is not true. First, remember that many of the things mentioned thus far are still in the potential phase. They are awaiting confirmation. Action taken prior to then could prove premature. Next, look at the office equipment group. This has been one of the stronger groups in recent months, but now something appears to be wrong. Notice how the amount of progress on the second upward thrust fell well short of that made by the first. This could be the start of a rounding over that will lead to at least a correcting of the earlier advance.

Last week, there was a penetration of the most recent support level. The last time this happened there was a quick recovery that led to the beginning of the second upward thrust. That time, however, the penetration was less and the prevailing momentum was more strongly on the upside. This time we cannot say for sure. If there is a recovery to the trading range, the third upward thrust may do no more than continue the rounding over process. If the trading range is not regained, an important correction should be certain. It could be as much as three hundred points.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DECEMBER 28 - DECEMBER 31
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DECEMBER 21 - DECEMBER 25
JANUARY 4 - JANUARY 8
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INDEX CHARTS

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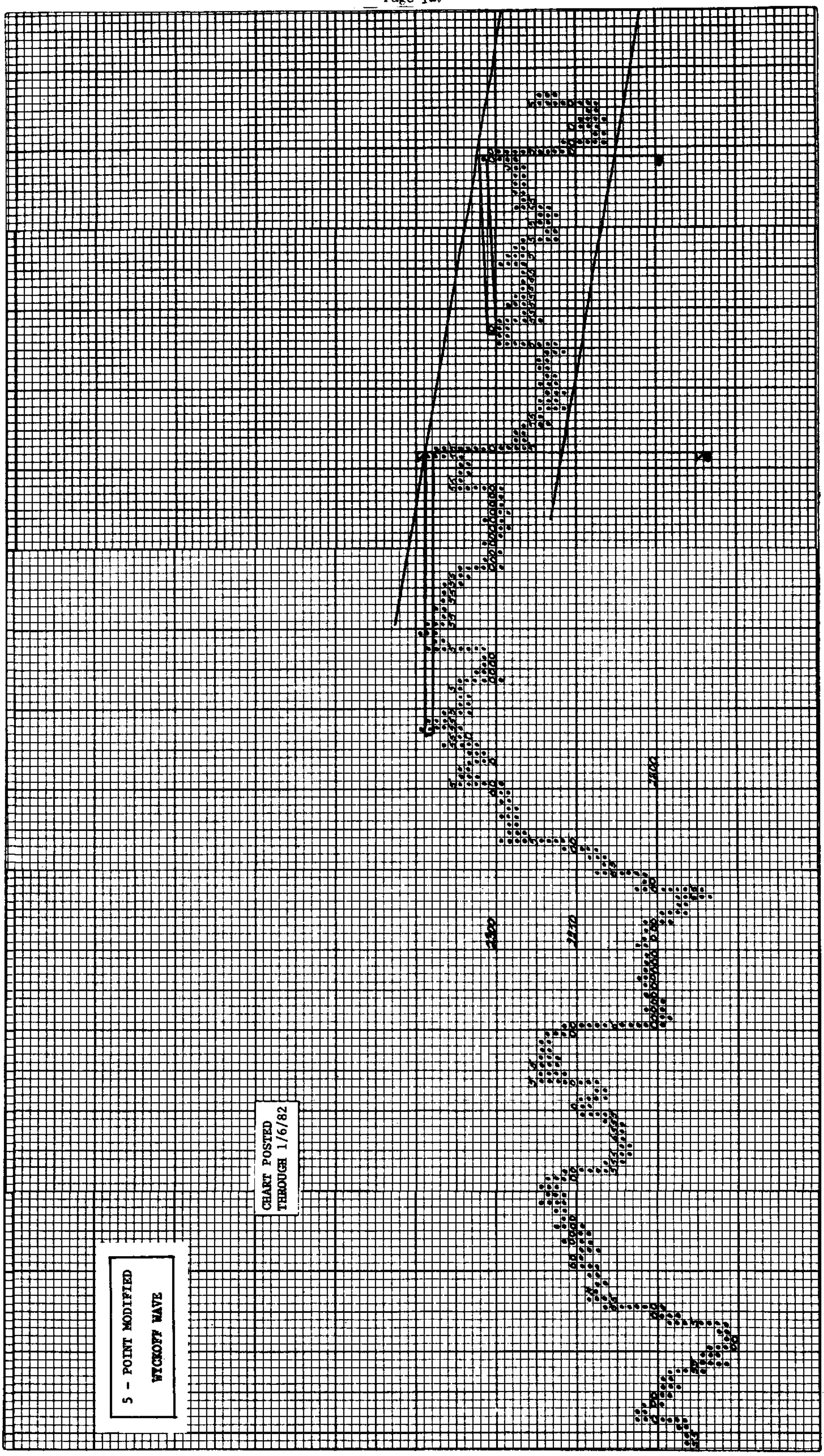
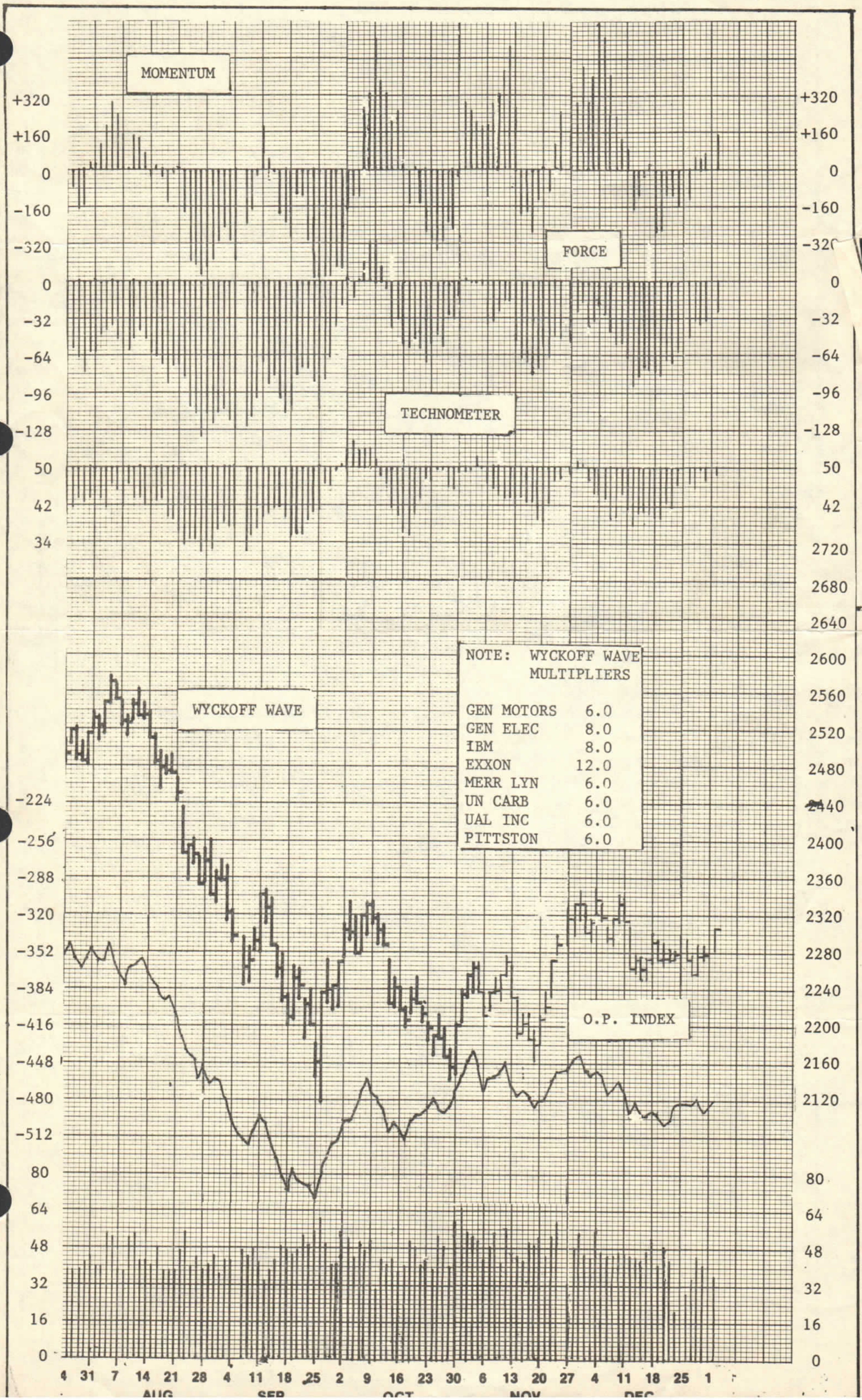
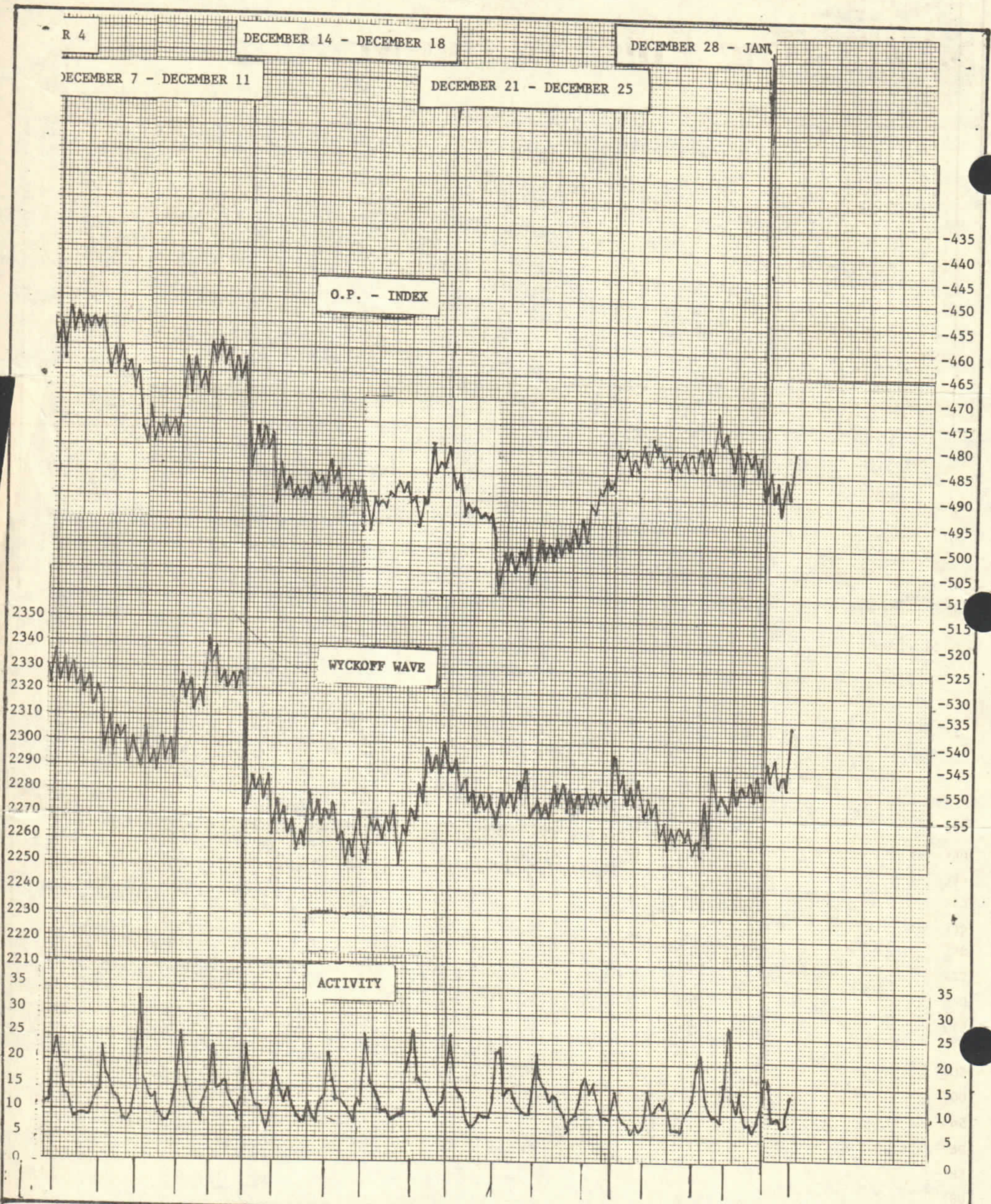


SMI The Pulse of the Market

MONDAY, JANUARY 4, 1982.

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DECEMBER 7 - DECEMBER 11
DECEMBER 21 - DECEMBER 25
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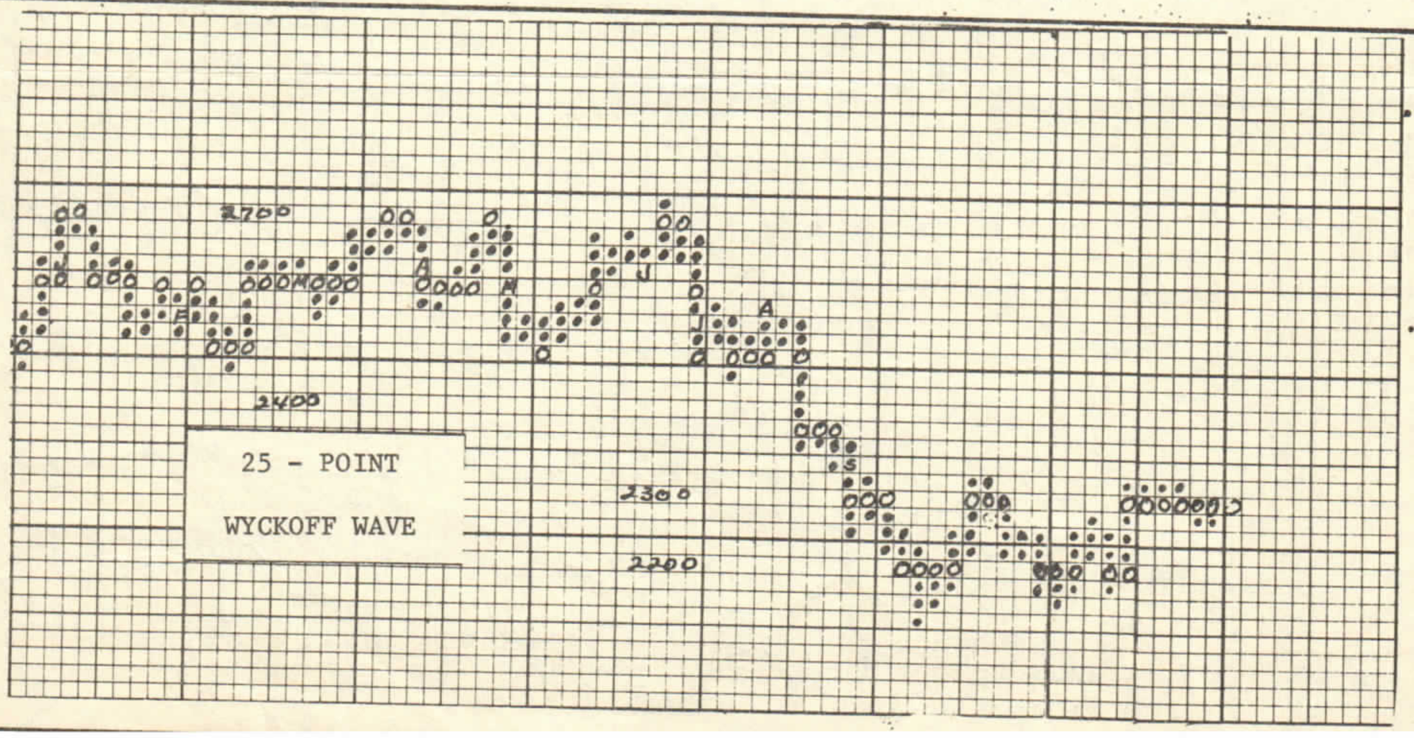
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25 - POINT
WYCKOFF WAVE

SMI

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INDEX CHARTS

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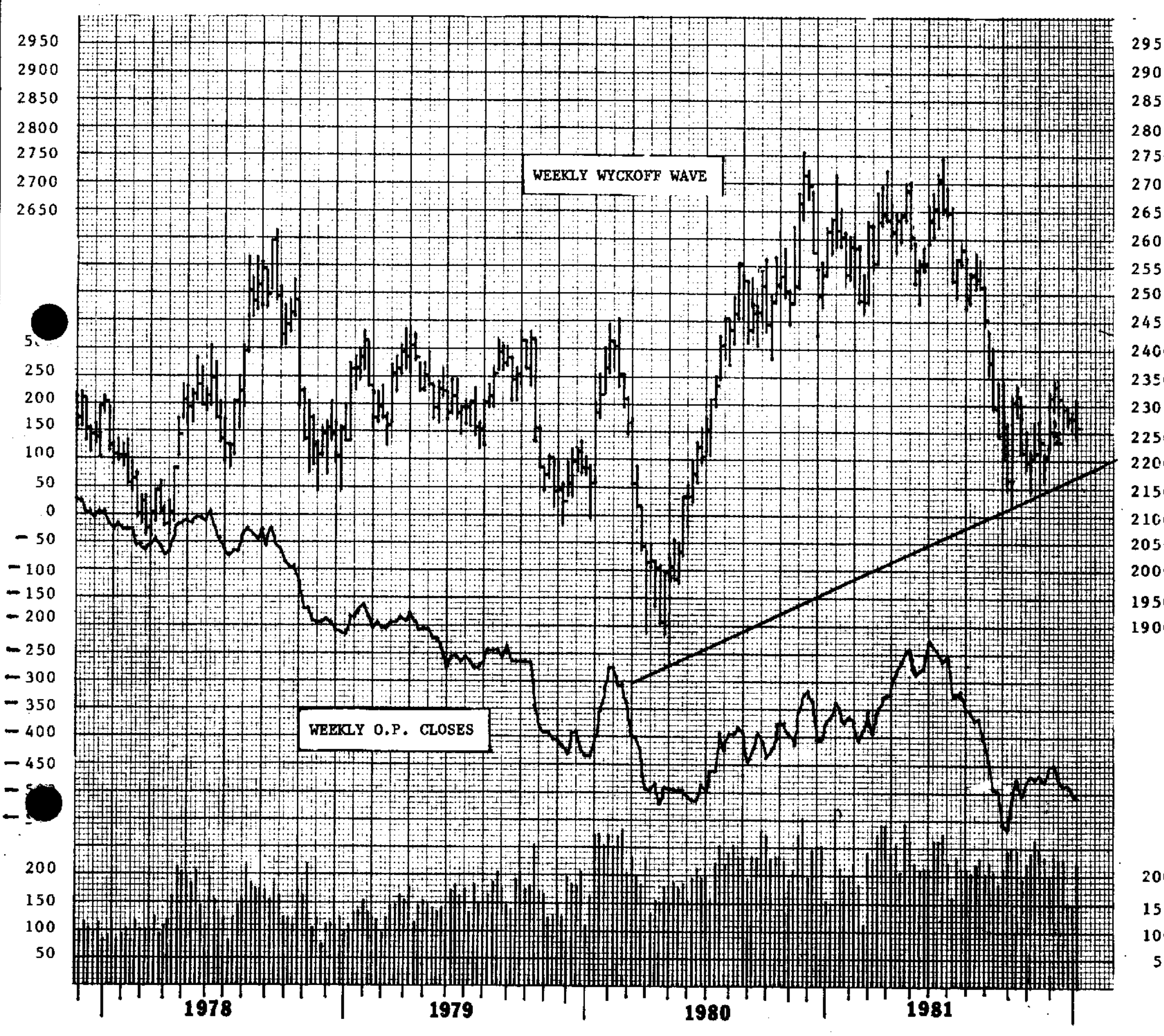
JANUARY 6, 1982.

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	½-Point Time Index
50-Point Modified Wyckoff Wave	Trend Barometer/O-P
25-Point Modified Wyckoff Wave	Intra-Day Wave Chart
3-Point of the 10-Point Modified WW	5-Point Modified Wyckoff Wave
10-Point Modified Wyckoff Wave	Group Indexes
Two Point Modified O-P	

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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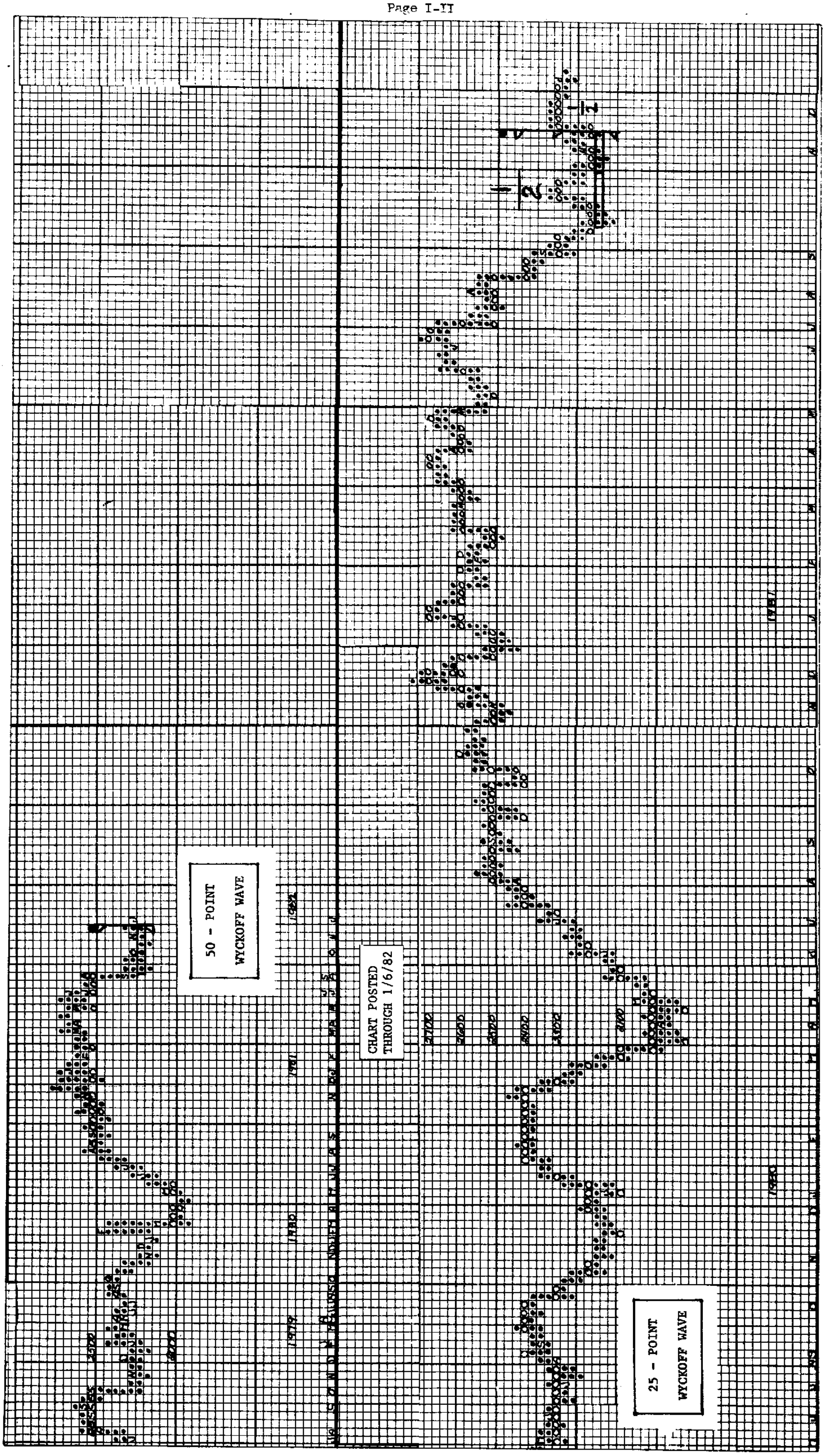

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AUTO GROUP
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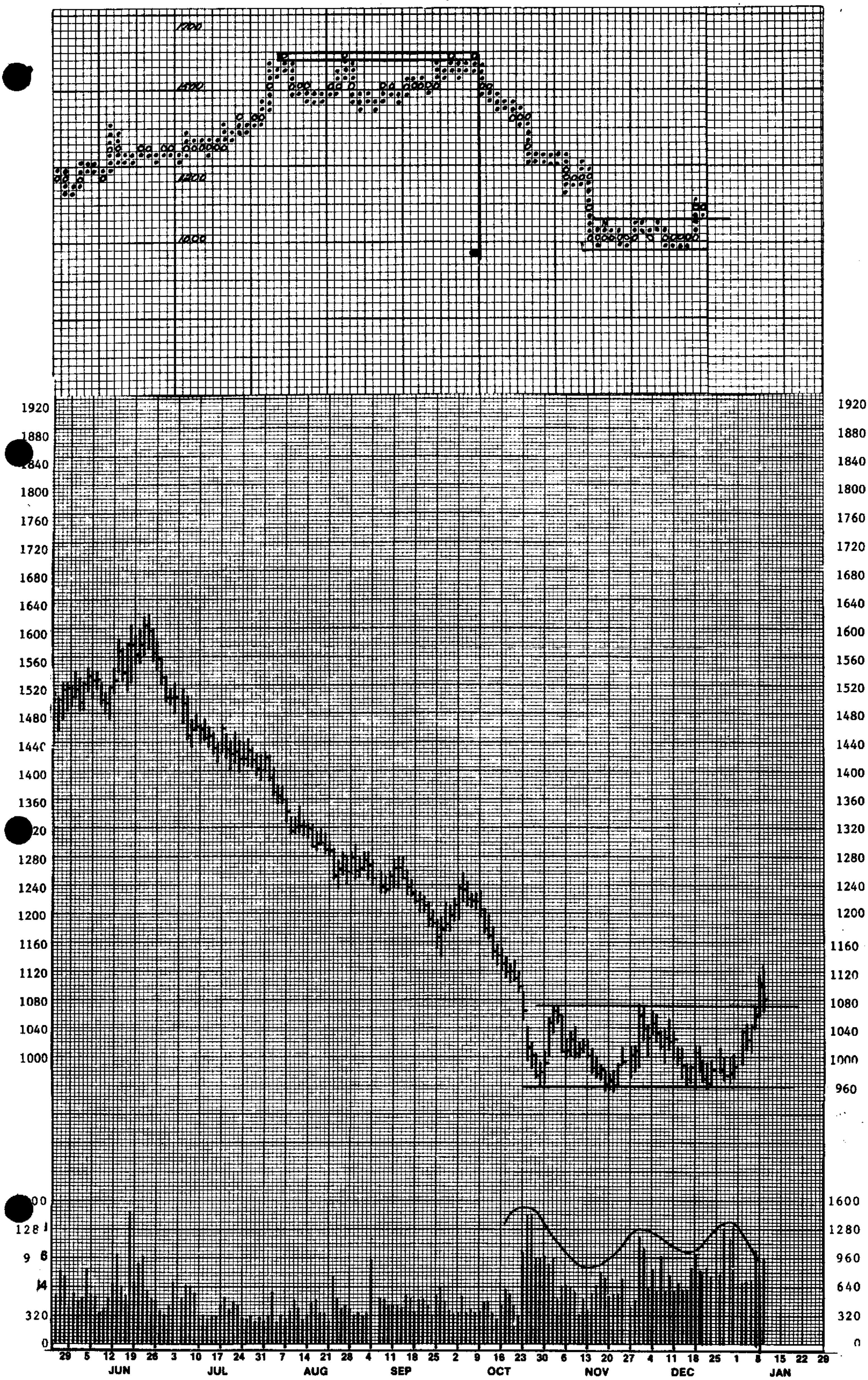

INDEX CHARTS

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BUILDING MATERIALS GROUP
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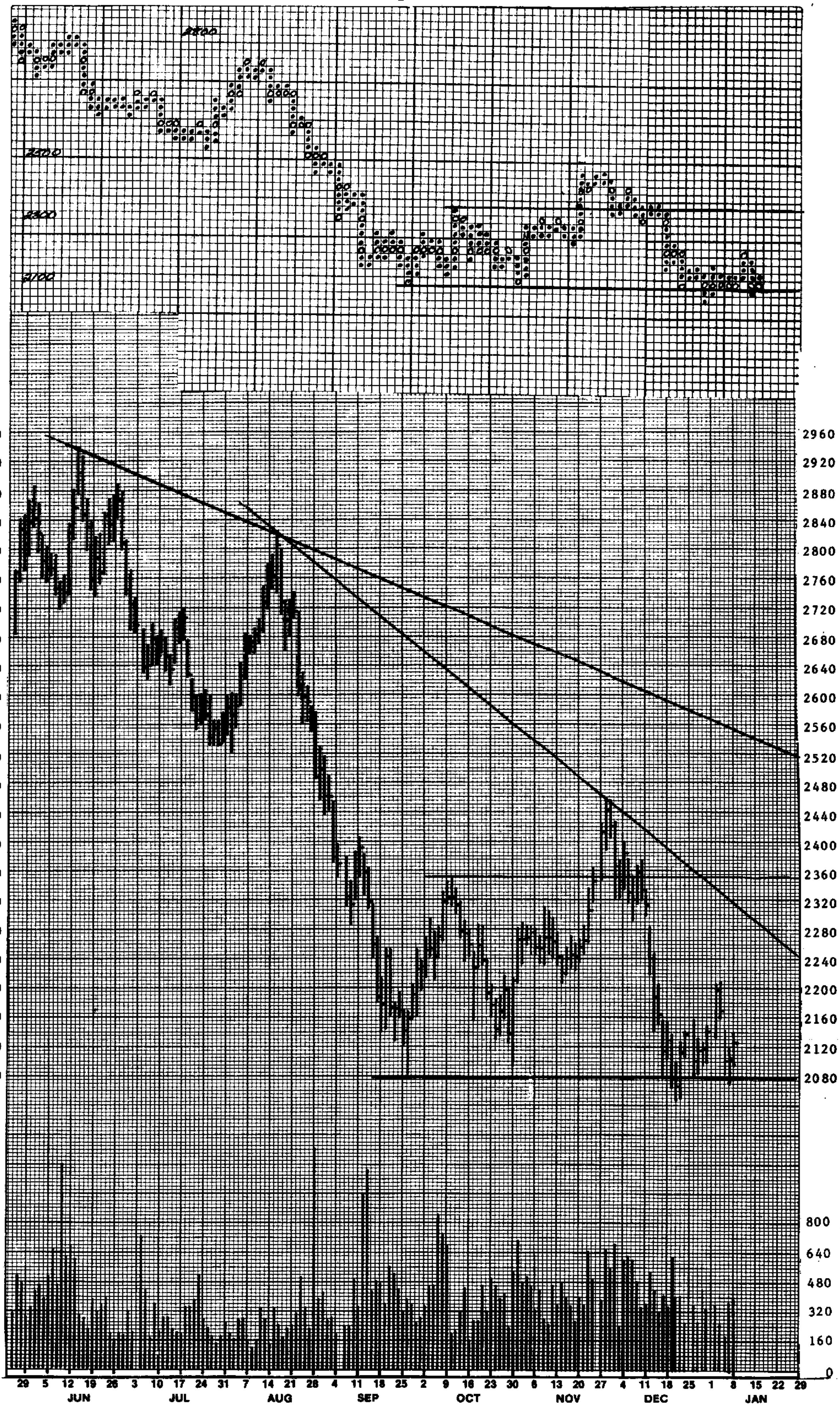

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CHEMICAL GROUP
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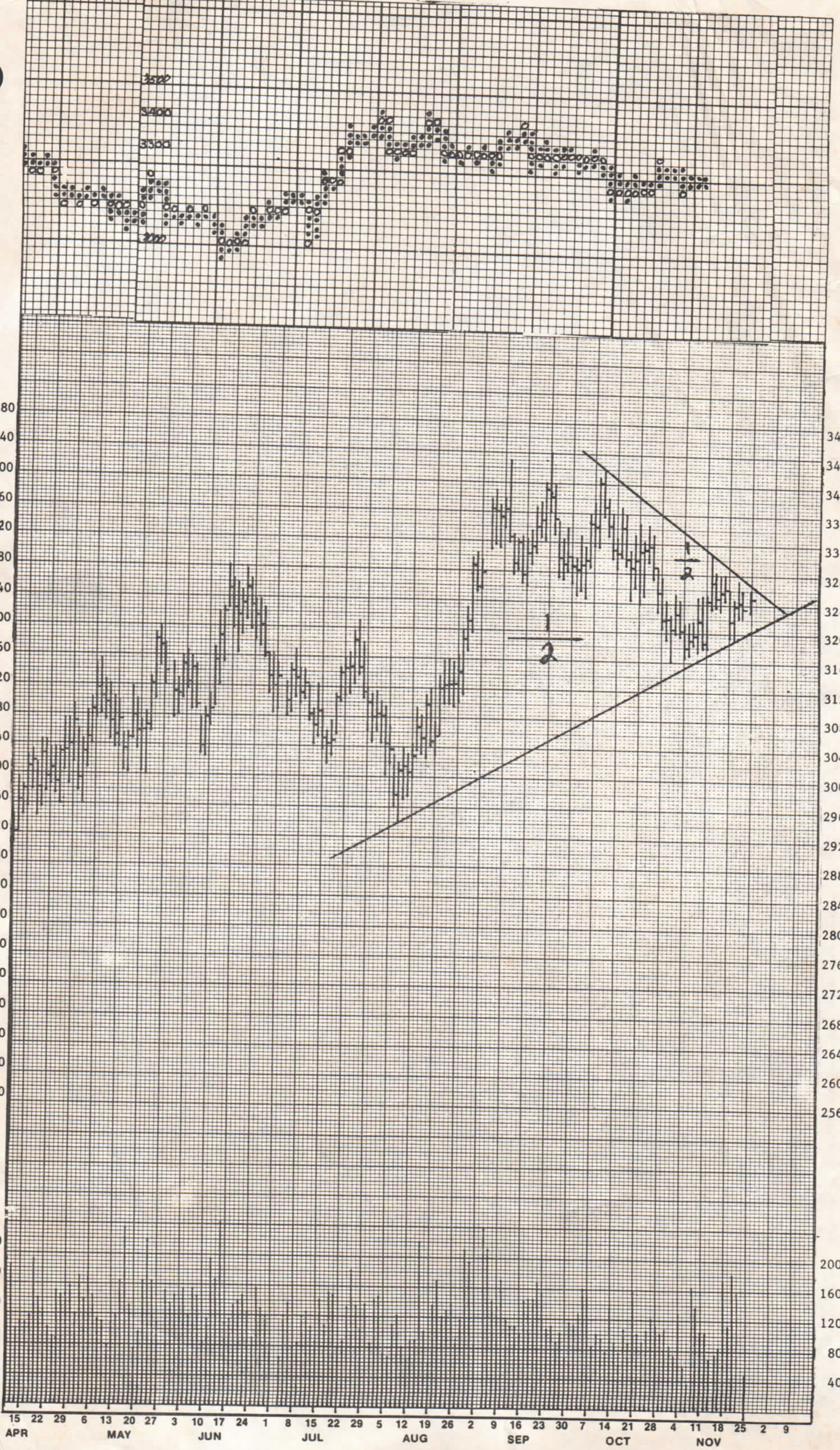

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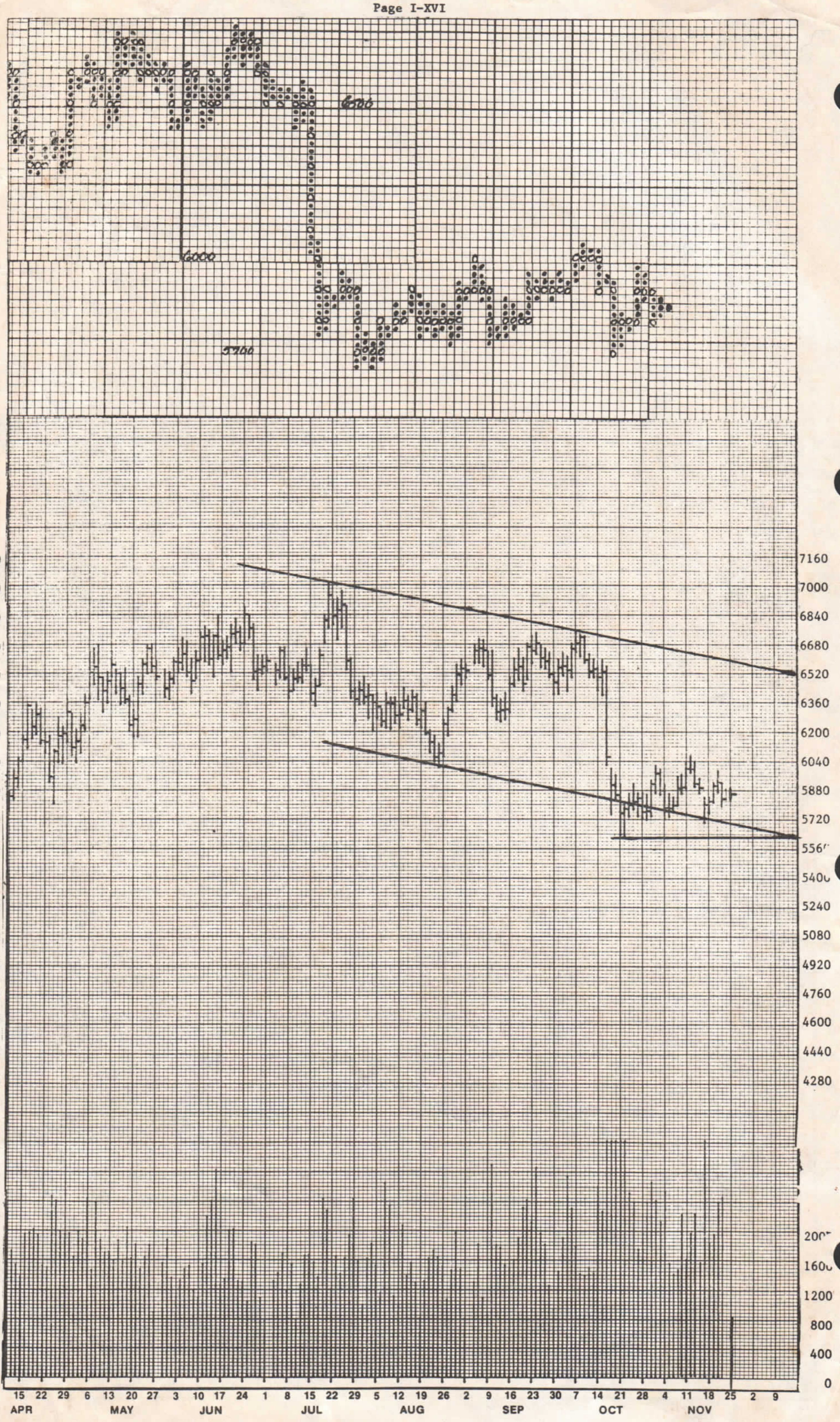

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DIVERSIFIED GROUP
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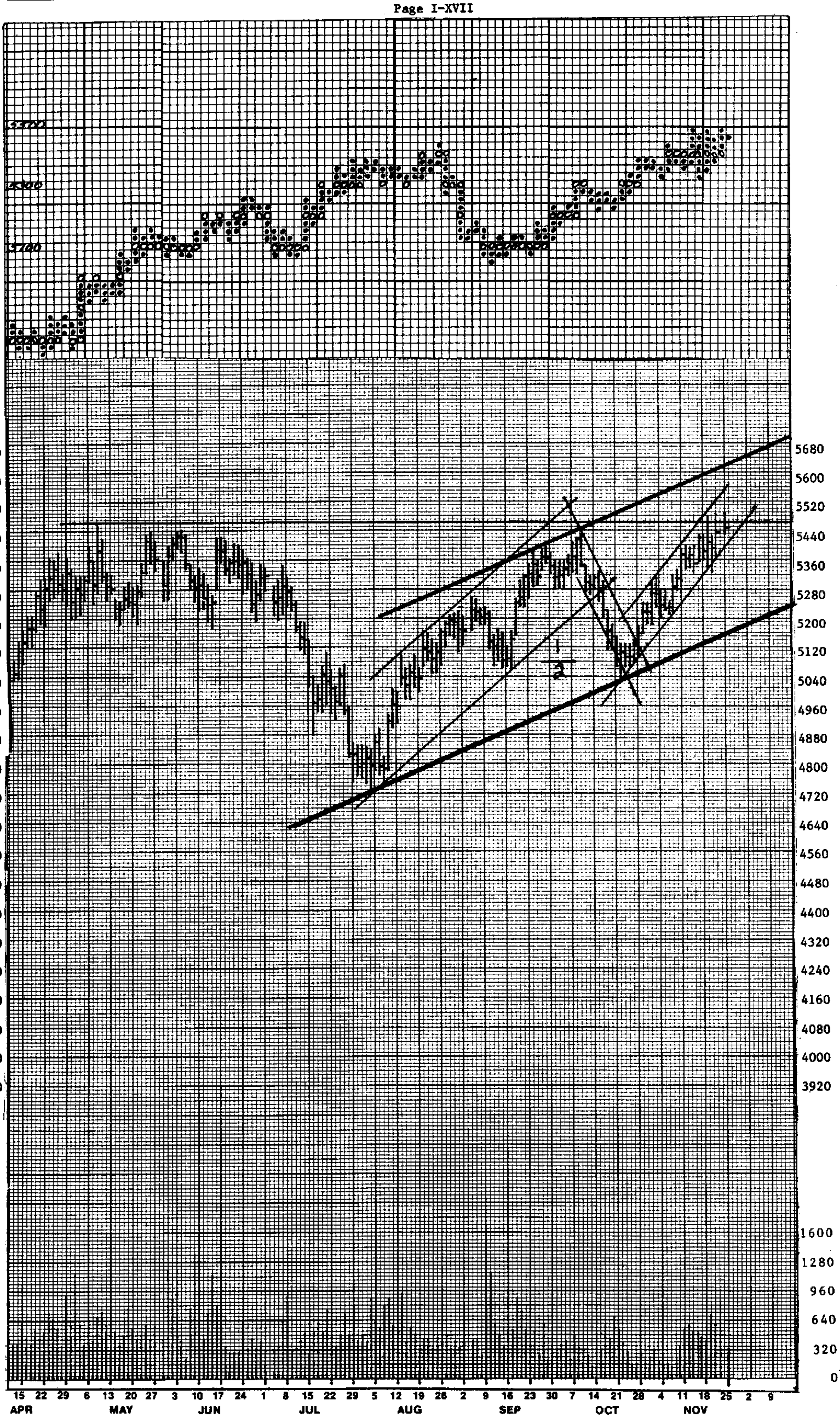

INDEX CHARTS

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DRUG GROUP
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