

## TRENDS AND TRADING RANGES

Thursday, January 5, 1984

A new year always brings speculation as to the direction of the market's action during the coming twelve months. The myth is that the direction established during the first week of the year sets the course for the entire year. Another myth is that the market always makes a high in an election year. Therefore, this should be a very positive year for the market. Of course, myths are not facts. At this point, the facts of the matter still point to a market in search of a trend.

The weekly chart of the Wyckoff Wave still provides the best illustration of the market's trendlessness. The trading range is now well over six months old and there is still no indication as to the direction of the next important move. There is an indication that something of importance is about to happen, however. This comes from the apex. The question is whether that something will be the next important move, or will produce the action that indicates the direction of the next important move. There is an important difference between these two possibilities. One will set the market free from its trading range. The other will not. Since there is no action pointing to a departure from the trading range, the odds favor the second possibility. If the response to the apex produces an upthrust of an important resistance level, look for the next significant move to be down. If the response produces a spring of the trading range, look for the next important move to be up. Until one of these two developments occurs, the best longer term action is no action. Turn a deaf ear to the daily noise about the market's action and concentrate on what the chart says. Nothing else matters.

The intermediate picture requires a more active participation. The action in mid December was a spring. Tuesday's action appears to represent the end of the test of the spring. A count taken from the low point of the test to the spring results in an upside objective of 4030. If this occurs, it will be an upthrust of the important October high. If the objective is not reached, a negative warning will be given and there still may be an upthrust of the 3950 level, which has been a major problem for the market for many months.

Yesterday the market resumed upside progress after the test with an impressive rally. This is normal. However, it began from less than a clearly oversold condition and required more than a fifty percent increase in volume to accomplish it. As a result, the market is already well on its way to being overbought and there is reason to question whether the market can produce enough effort to push through the stiff resistance that lies just ahead.

The intermediate trader should not chase Wednesdays rally or any other rally for that matter. Be patient. Wait for the market to pull back. This will help relieve the overbought condition and likely broaden the base for a better rally.

From a short term standpoint, the market is in a well defined uptrend. However, at this point, it is in the middle of that trend channel. Therefore, it is not a buy. The five point figure chart does not show any immediate cause for Tuesdays advance. This suggests that it will be hard to sustain. What is needed is a test of the demand line. This will provide a buying opportunity and an immediate upside potential to continue the uptrend. Bear in mind, however, that a test of the demand line is an indication to buy only if it is constructively executed.

### GROUP ANALYSIS

At this point, more of the groups are in uptrends than are in down trends. This should help make for a positive market. However, not all of those groups that are in uptrends are positioned in such a way that immediate positive action is likely. Therefore, an upside explosion in the market is not a strong possibility.

The aerospace group is one that is in an uptrend. Its position is one that is interesting for action on the long side. The index has been in a narrow trading range within the uptrend for about six weeks. It is now approaching the demand line of the uptrend after having built a 750 point potential. This makes it a candidate for a short term move on the upside. From an intermediate standpoint there is some reason for concern. The last important rally fell short of the demand line. If this pattern persists on the next rally and especially if the gap widens, these positions should be closed out. From a long term perspective, no action is warranted. The short term rally that may be anticipated will do no more than produce an upthrust of the resistance level at 8000.

The banking group is another already in a defined uptrend that looks interesting for the long side. It had been testing the demand line on decreasing volume through the end of last week. This week, it has started to move away from the line on increasing volume. There is a two phase upside objective to about the 4000 level. The one potential problem is the resistance at 3330. This may temporarily stop the advance and produce a reaction. If so, buy the reaction if it has a positive character. Should the group jump the creek instead consider buying on the back up.

The building materials group is also interesting, but for a different reason. It is still in a trading range and was in an upthrust position. On the surface, this sounds negative. What makes it interesting, however, is the persistent support near the top of the trading range on the pull back from the upthrust. This is not normal. The normal follow through from an upthrust is to fall back into at least the middle of the trading range on high volume. Therefore, the action that exists is making a positive statement. Buying immediately cannot be justified due to the relatively overbought condition of the market, but may be considered on a pull back.

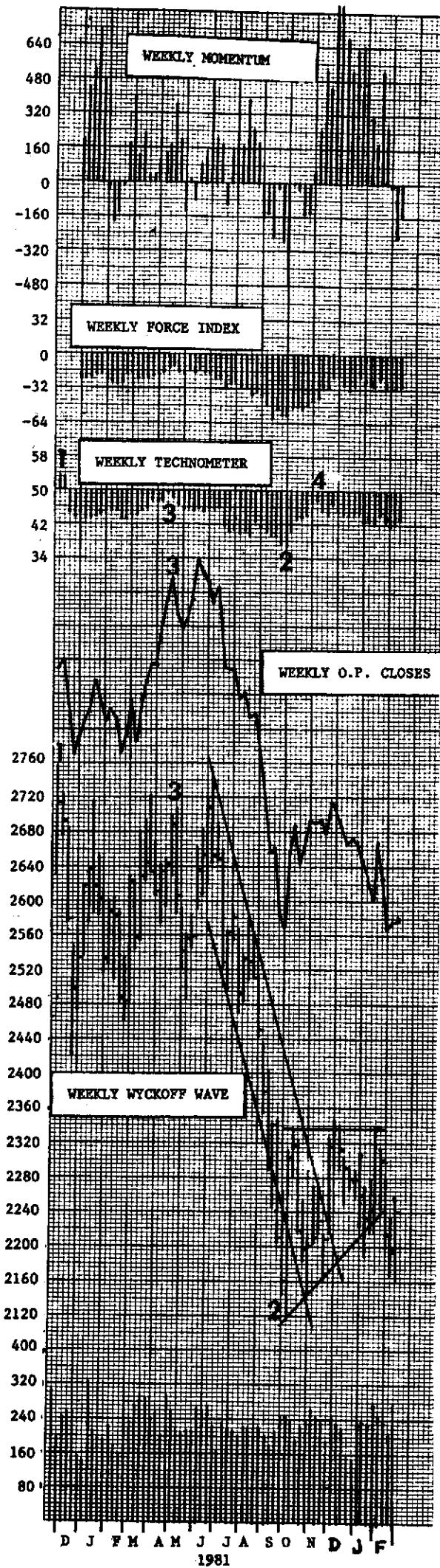
Not every group is in an uptrend. The chemical group is in a down trend. When the market becomes overbought and is in need of a reaction, this area should produce some profits on the short side. These will come in the form of a short term reaction in an intermediate down. Obviously, those already short should remain on that side. However, be aware of any developing inability to react to the oversold line. Such a development points to a diminishing level of weakness and is reason to consider covering short positions.

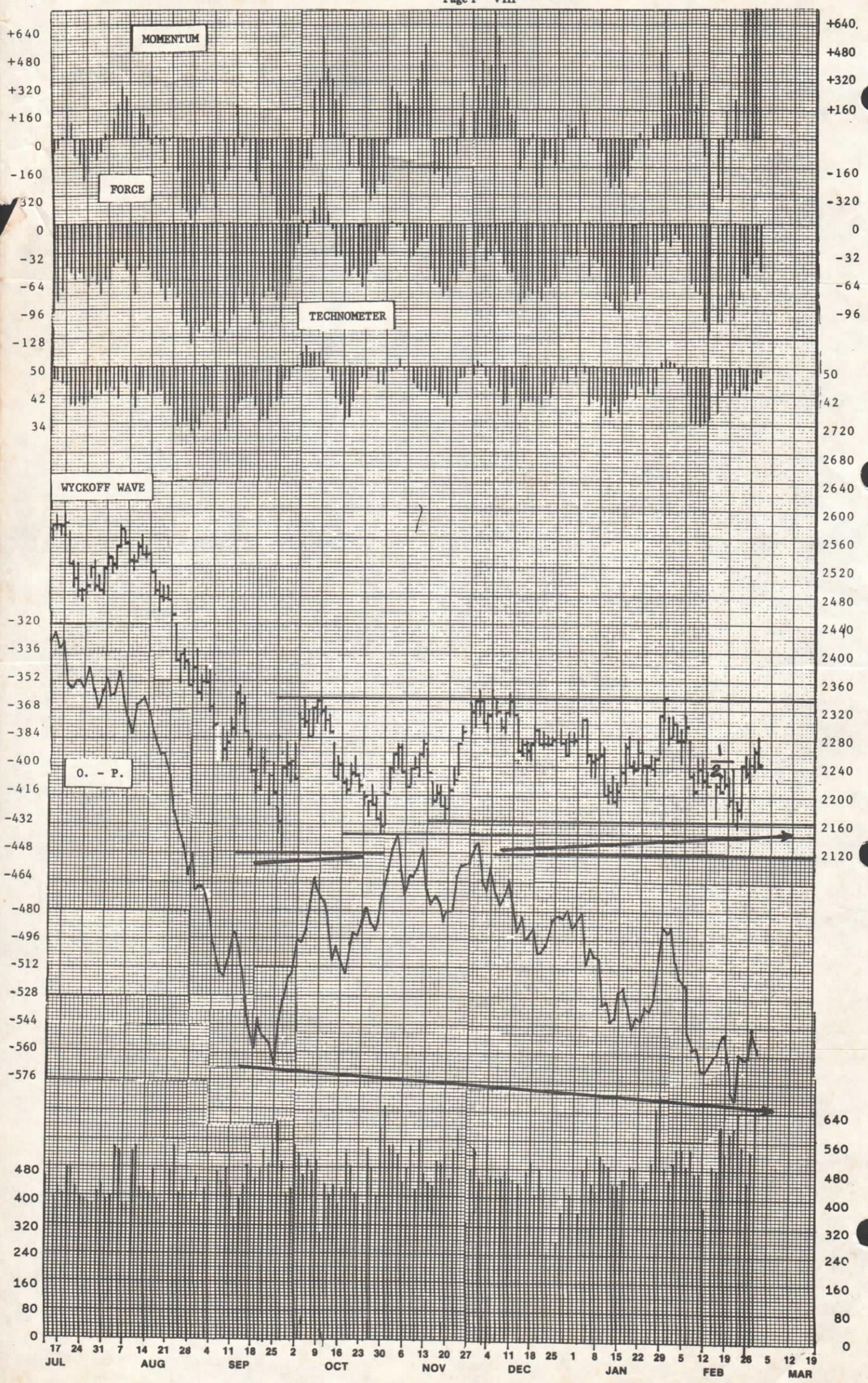
A similar situation to the chemical group can be found in the drug group. Here again there is a defined intermediate down trend, and a short term rally toward the supply line in progress. An overbought condition in the general market is probably going to correspond to a test of the supply line. If so, this group may be considered for a short position.

The electronics group is interesting for the upside. The reasons are an uptrend and a potentially massive count. At this point, the index is testing its demand line, which appears as though it is going to hold. As soon as the overbought condition is relieved and assuming that the uptrend continues to hold, this group should be looked at for an opportunity on the long side.

Another possibility for the short side on the next reaction is the medical group. This group presents a picture similar to that of the chemical and drug groups. There is a well established down trend with a short term rally. In this case, the index is already in an overbought position on the short term uptrend. Therefore, the more important supply line appears secure. As a result, the development of an overbought condition in the general market should be seen as an opportunity to consider short positions in this area.

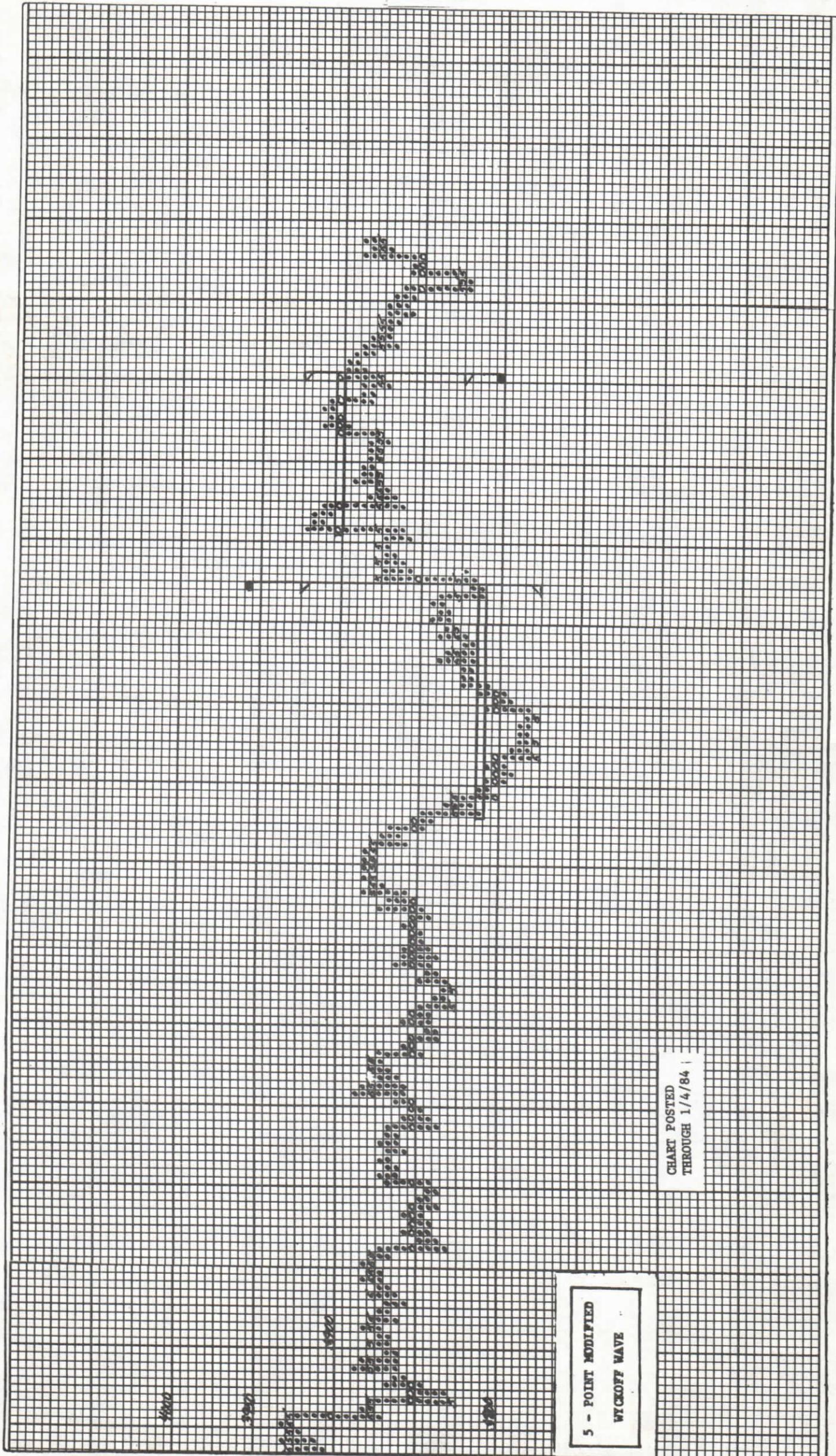
An important change appears to be underway in the oil groups. Both had been in down trends. However, the exploration group has now decisively broken its down trend and the oil group appears to be on the verge of doing the same thing. At this point, the exploration group is by far more interesting. This is due to a sizable count that is already in place and a spring position, which is now being tested. When the market is able to eliminate its overbought condition, this group may be considered for action on the long side.





THRU Jan 1984

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**SMI**

**INDEX CHARTS**

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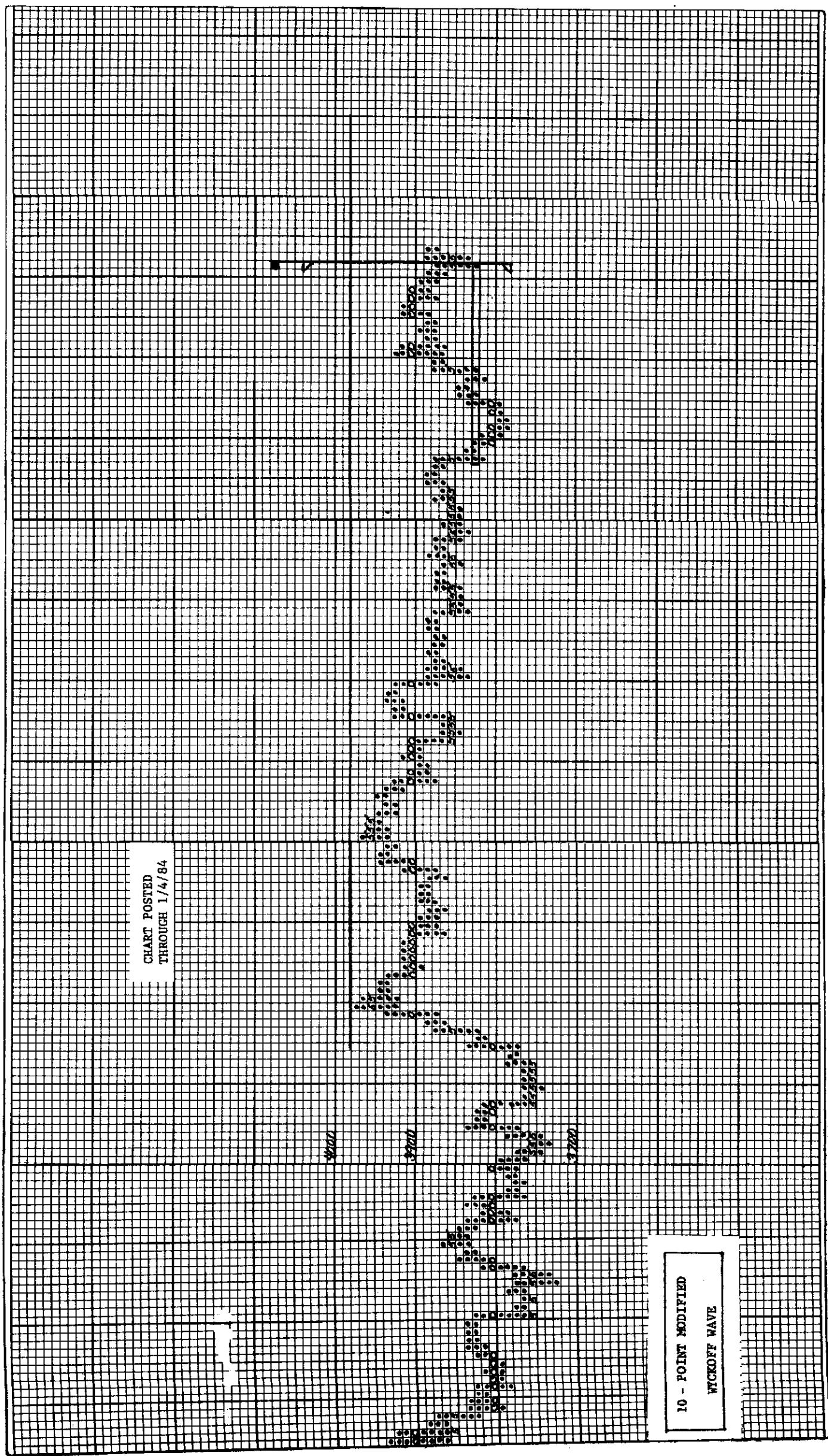
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THROUGH 1/4/84

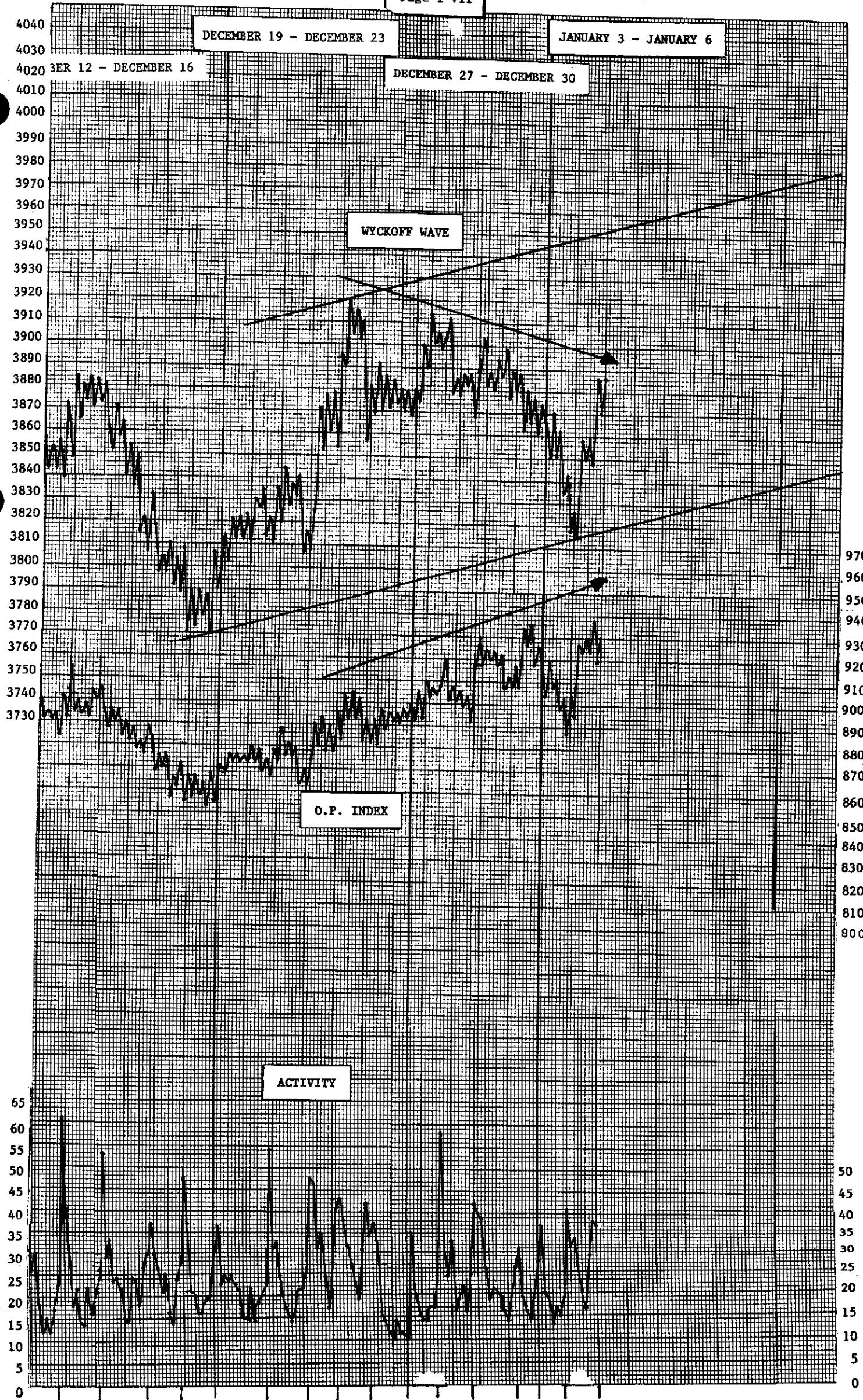
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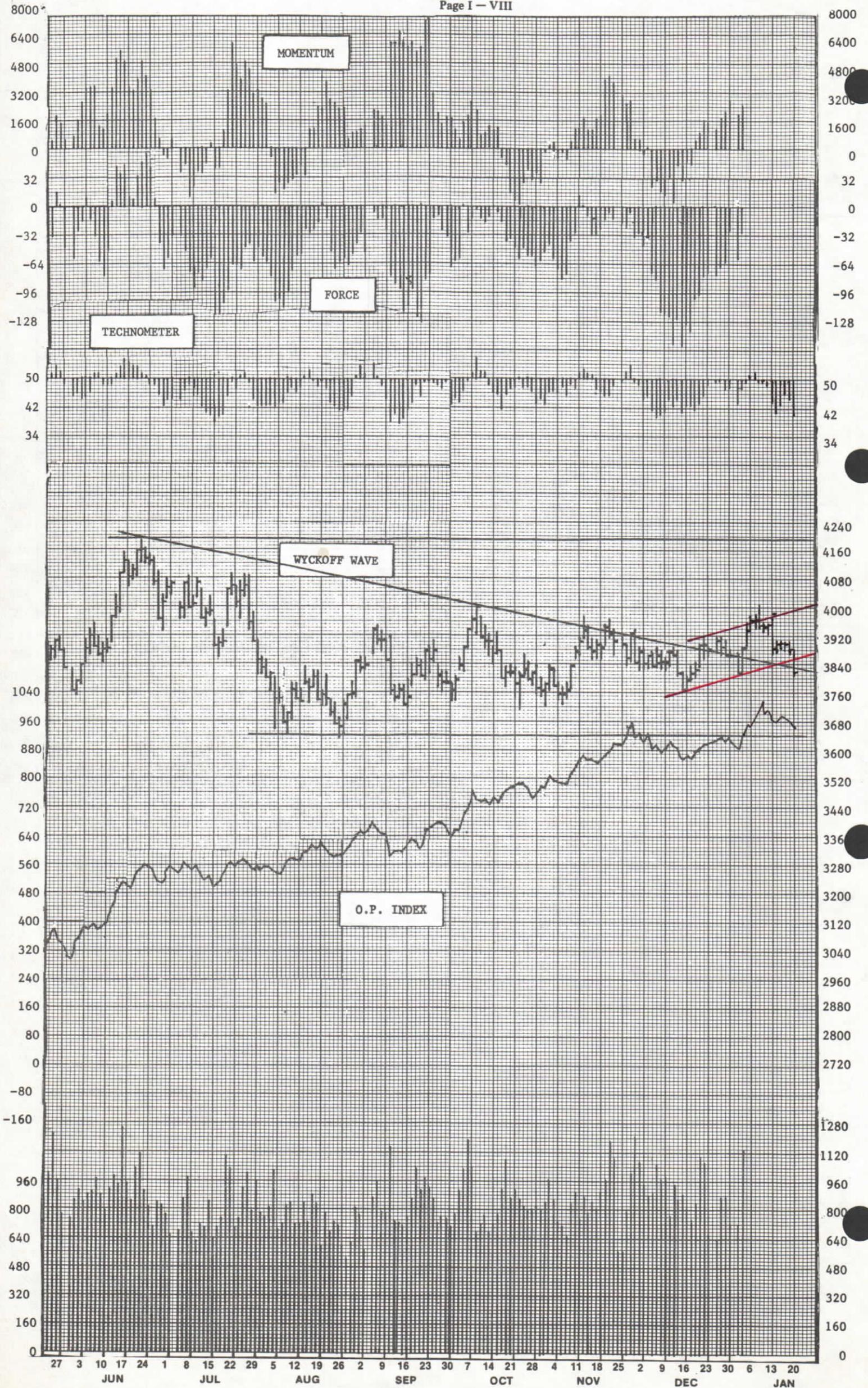
3/20

3/20

10 - POINT MODIFIED  
WICKOFF WAVE









## INDEX CHARTS

STOCK MARKET INSTITUTE, INC.

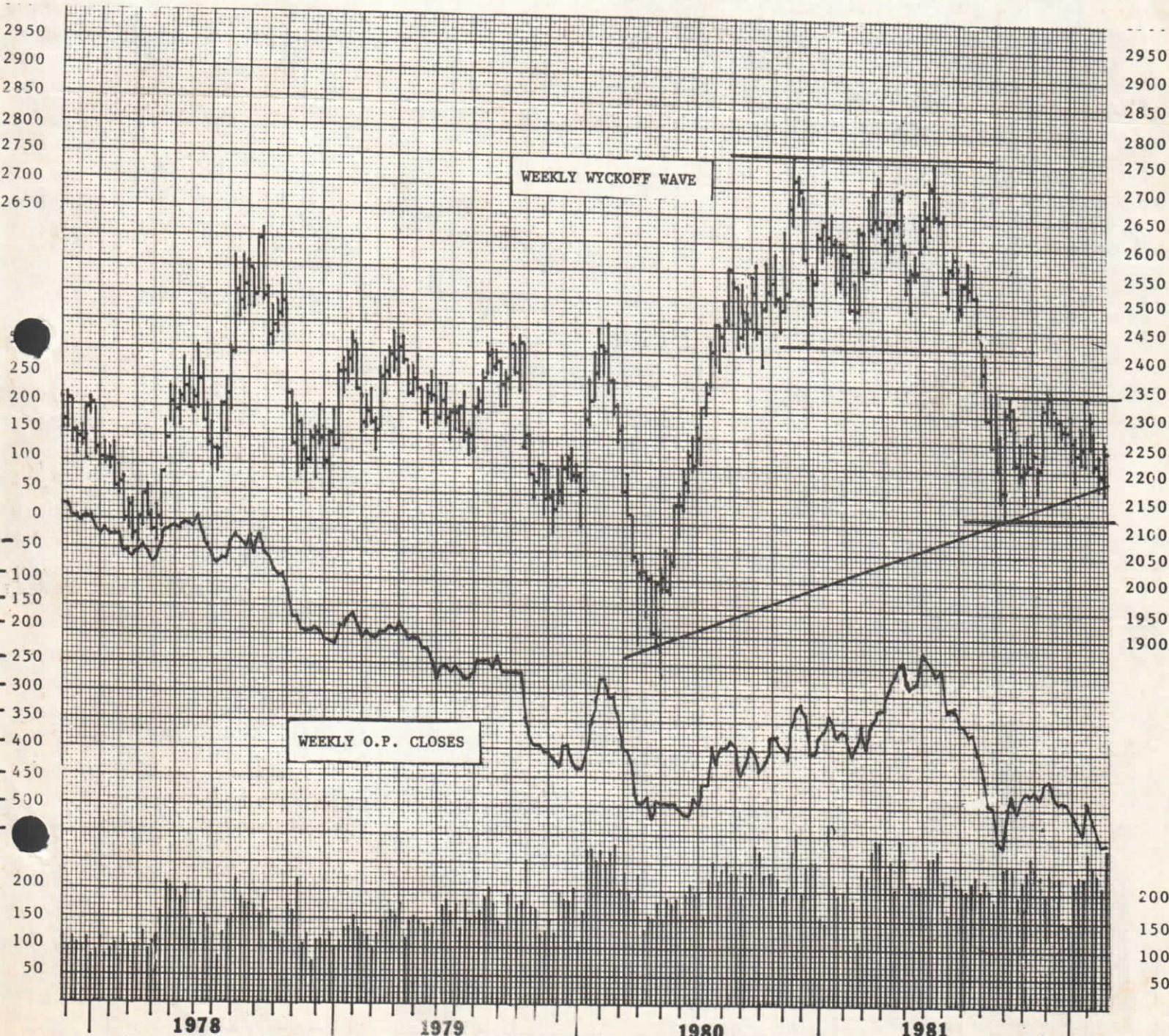
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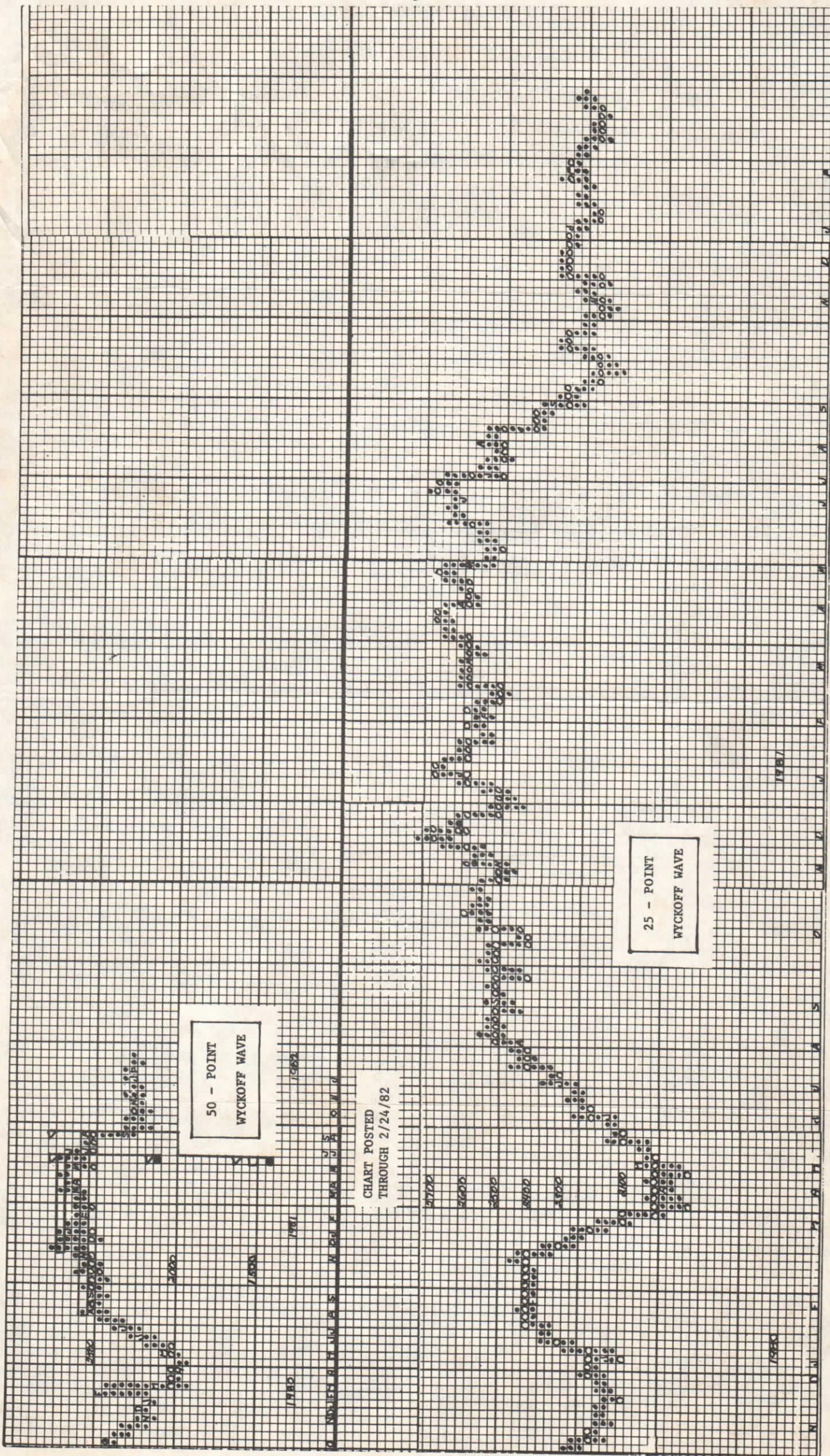
### SMI/WYCKOFF INDEX CHARTS

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.





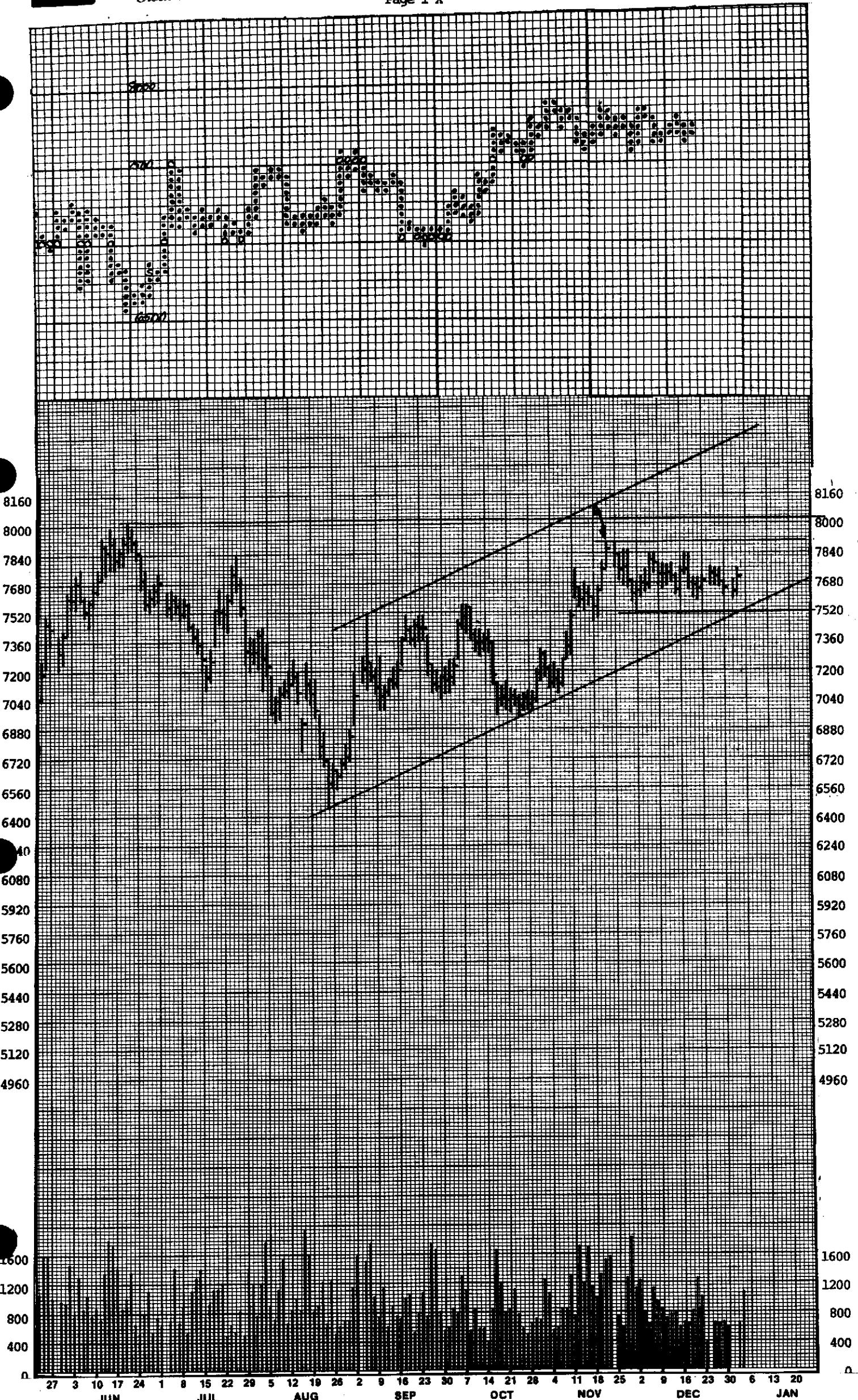
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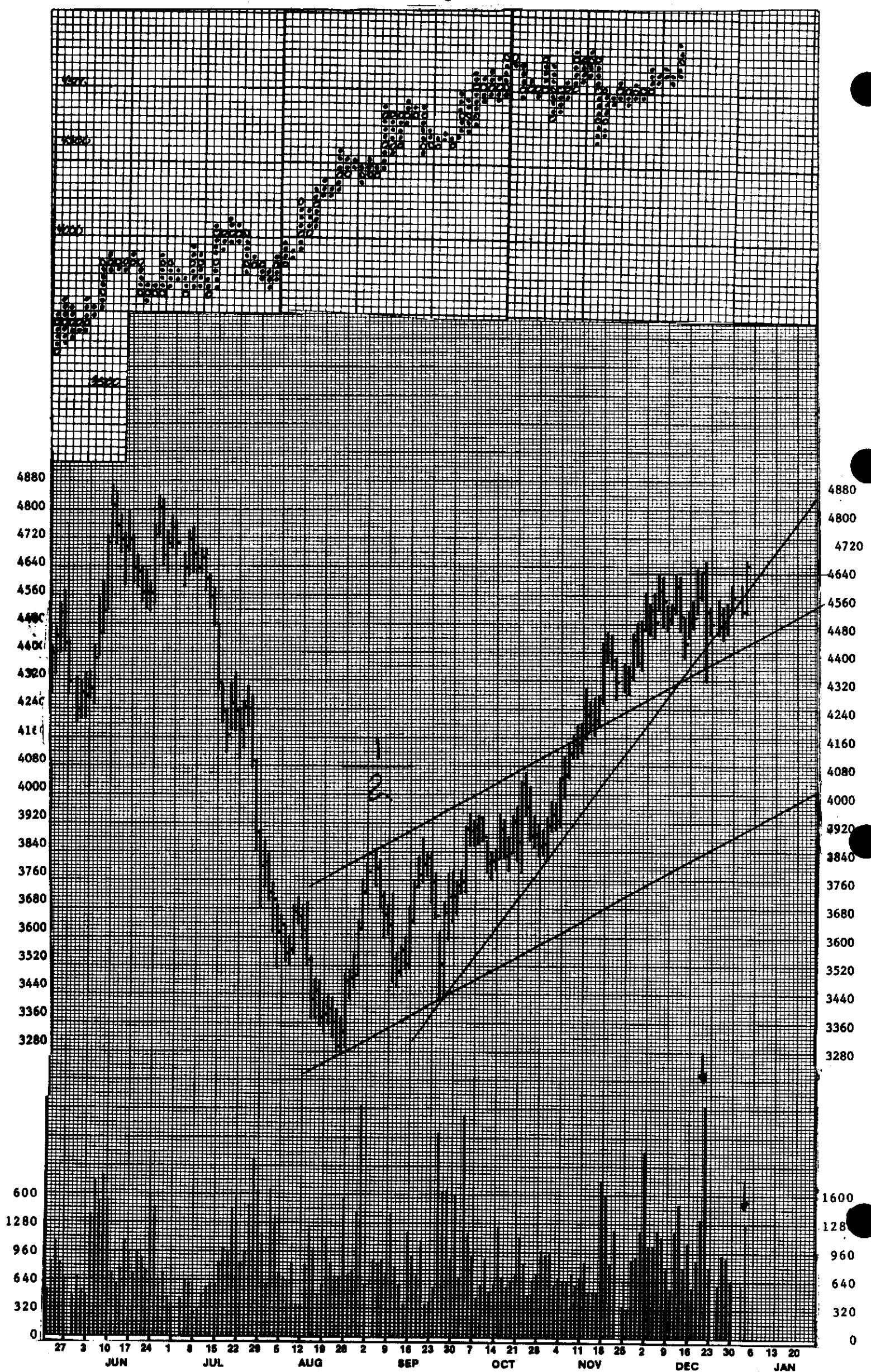
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AEROSPACE GROUP

6 (4.5BA+3MD+10GD+4RTN+2UTX)



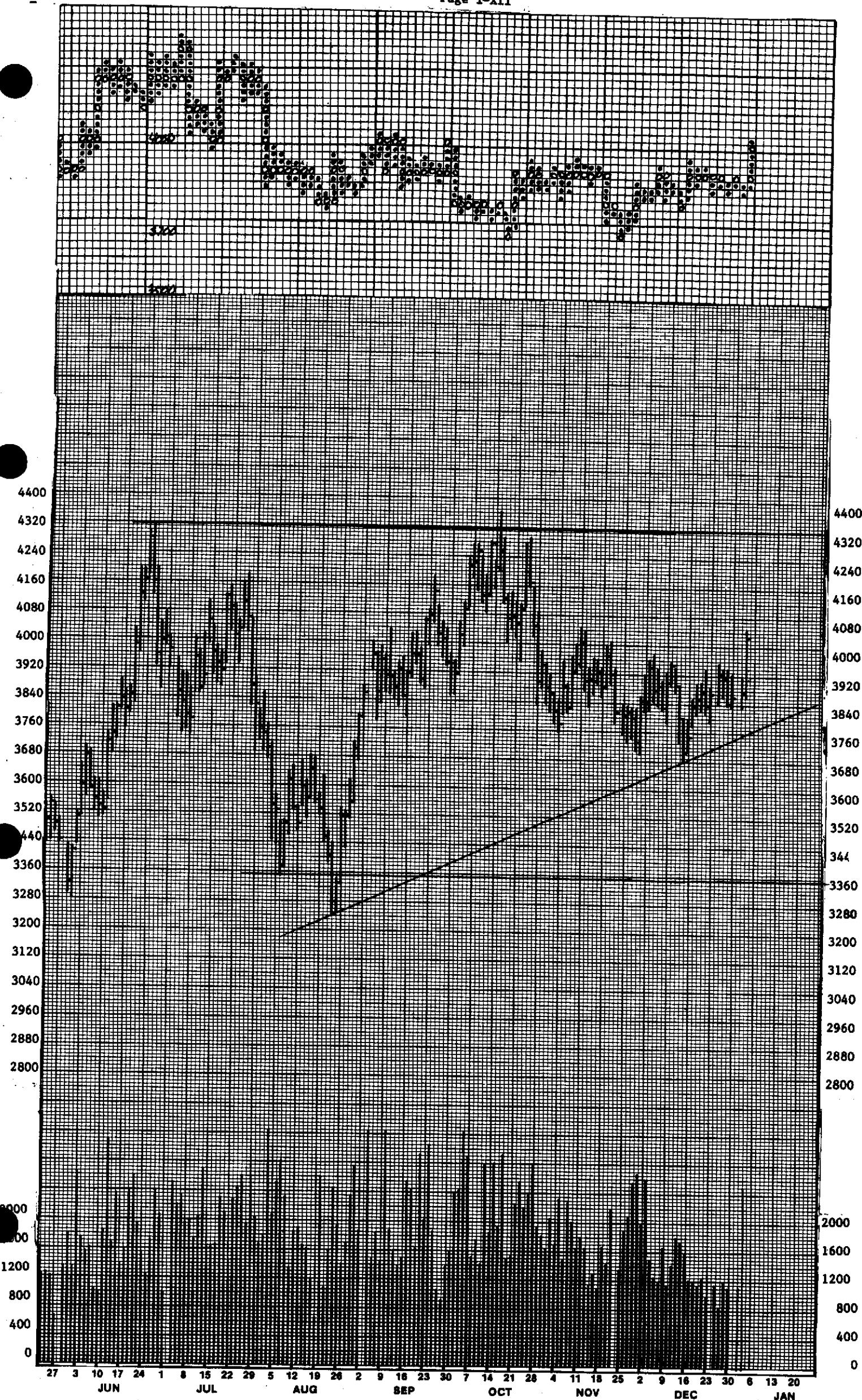


**SMI****INDEX CHARTS**

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AUTO GROUP  
6(11C+4.5F+2GM)

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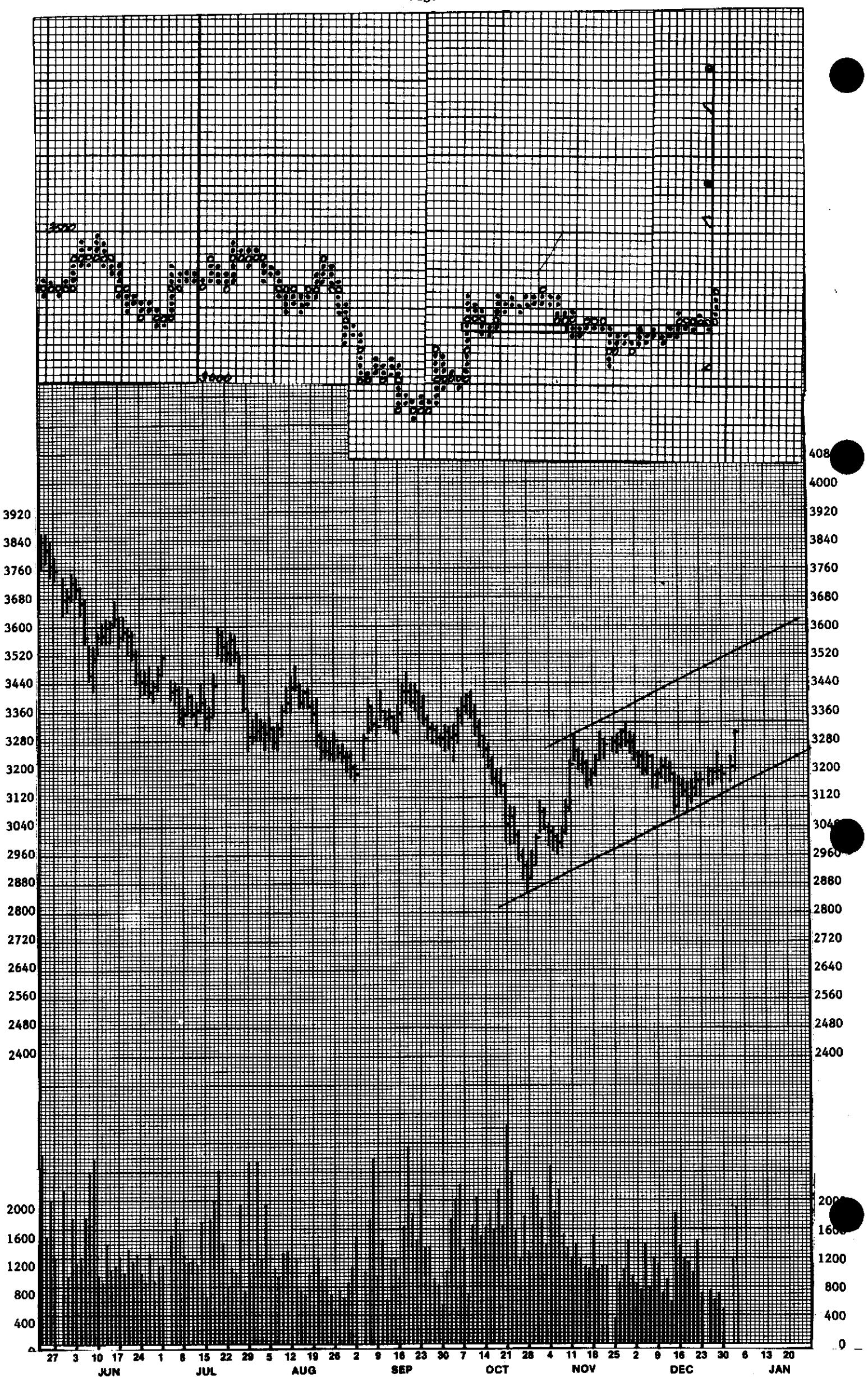


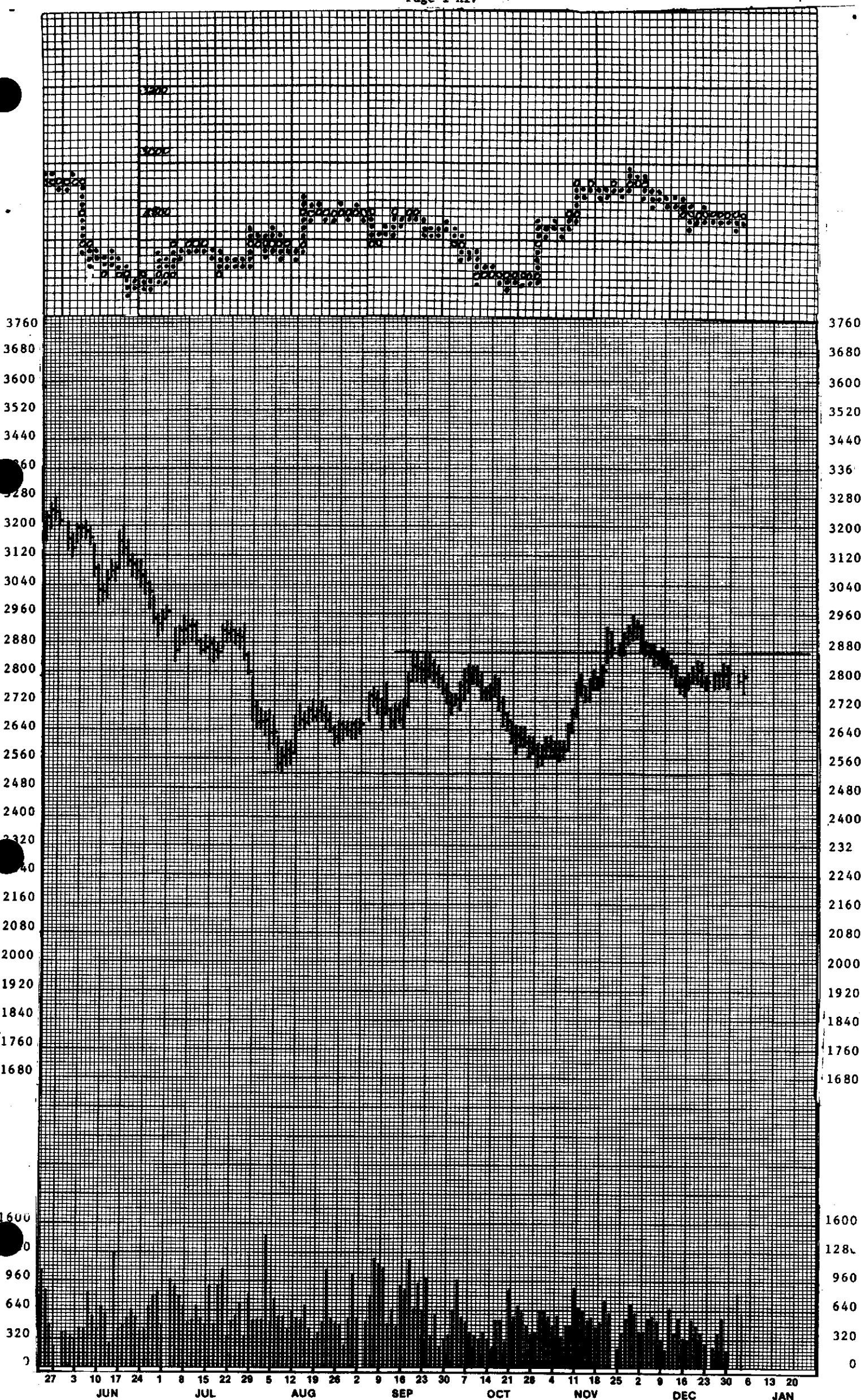
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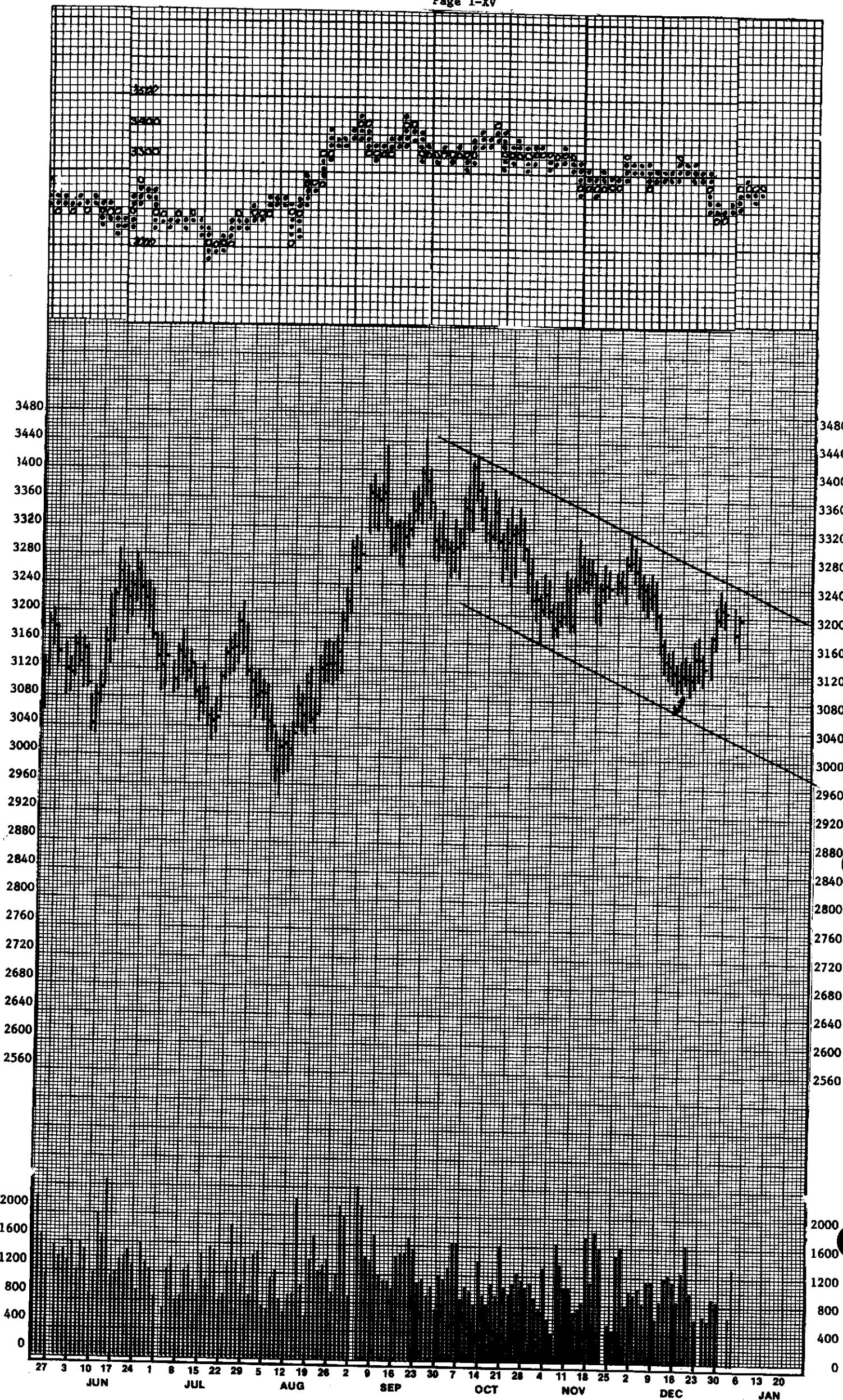
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BANKING GROUP  
5(4BAC+3CMB+4FNC+6GWF+2JPM)

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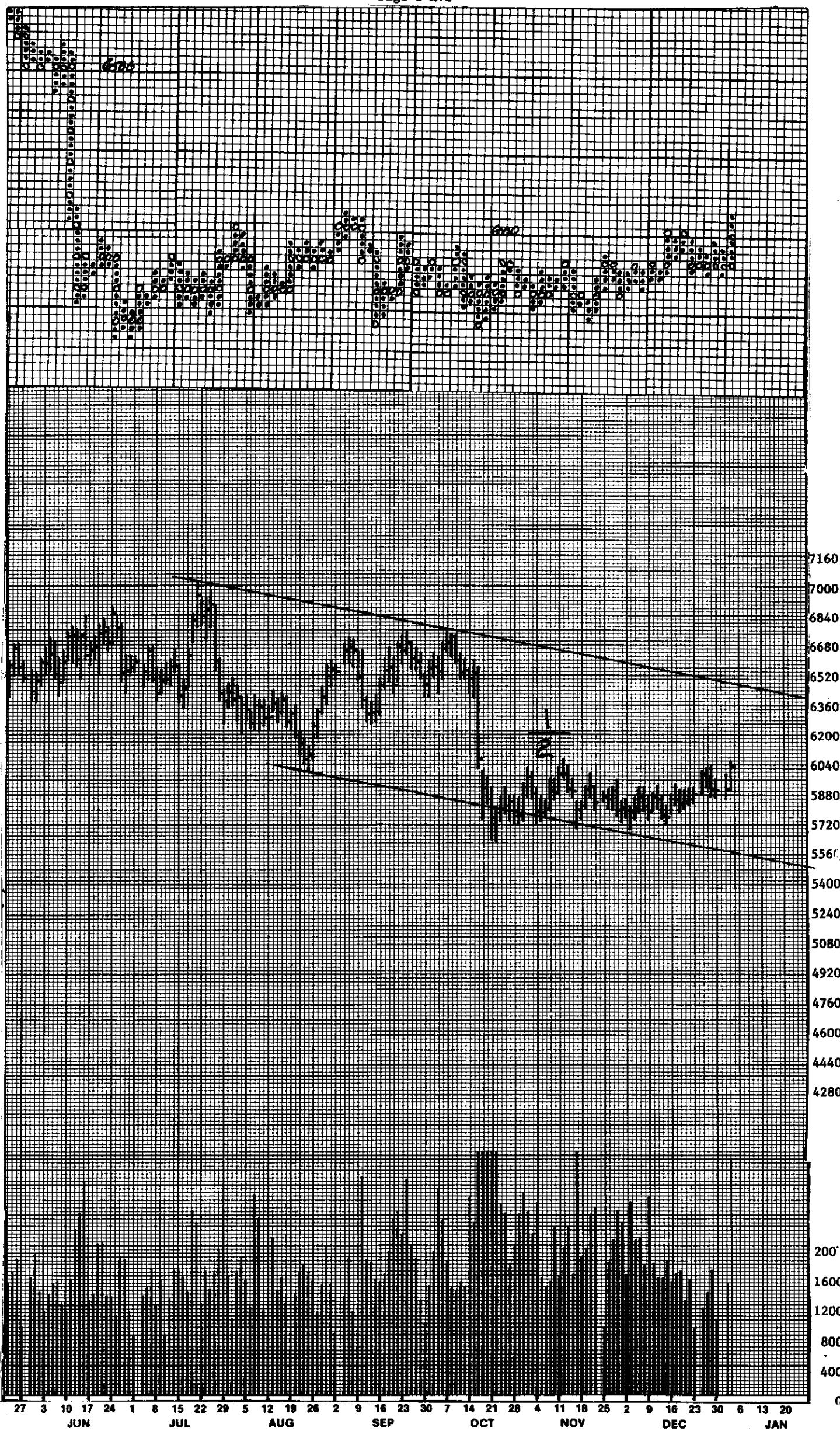


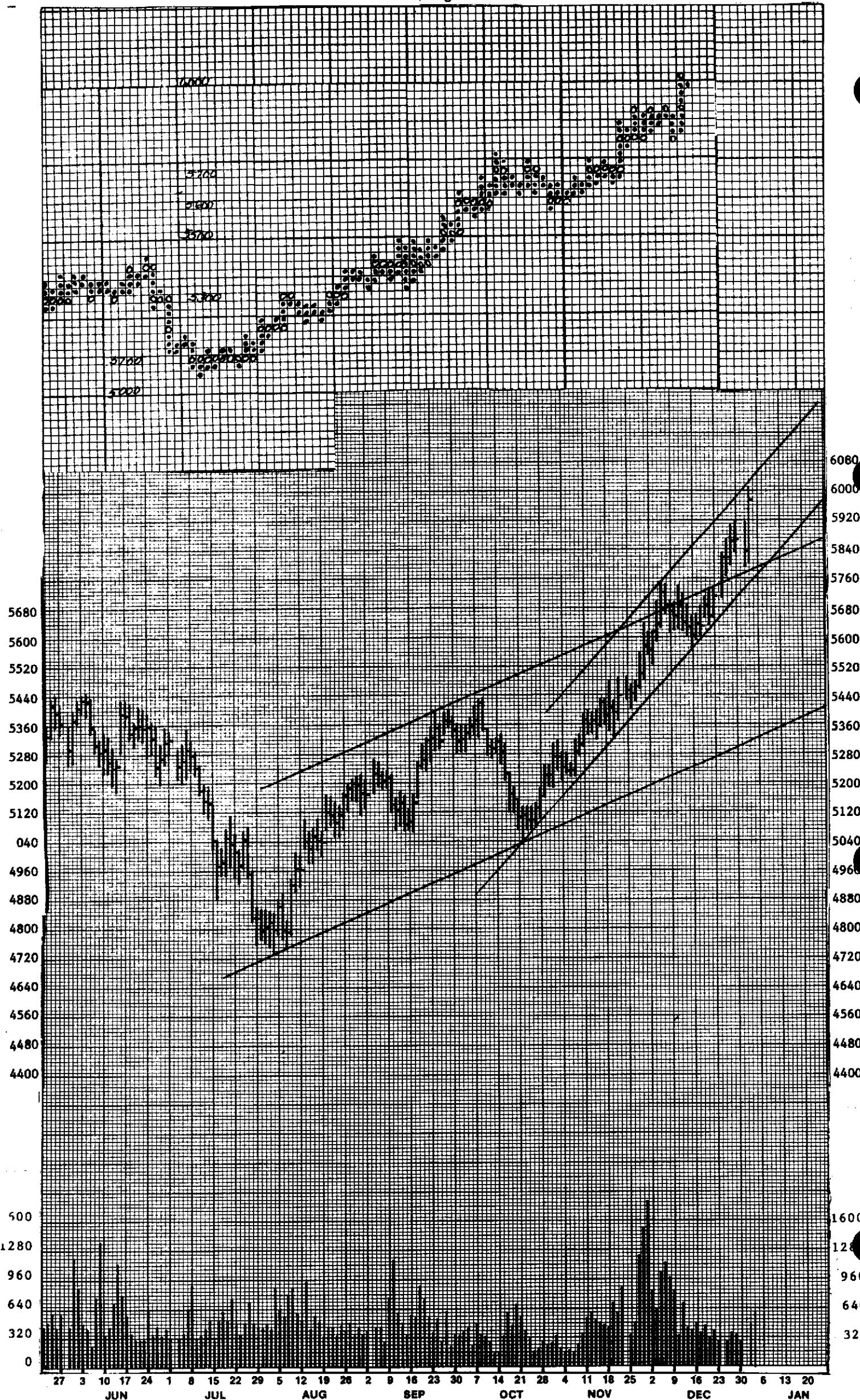
**SMII**

**INDEX CHARTS**  
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COMPUTER GROUP  
1(40CDA+22DGN+12DEC+11HON+8IBM)

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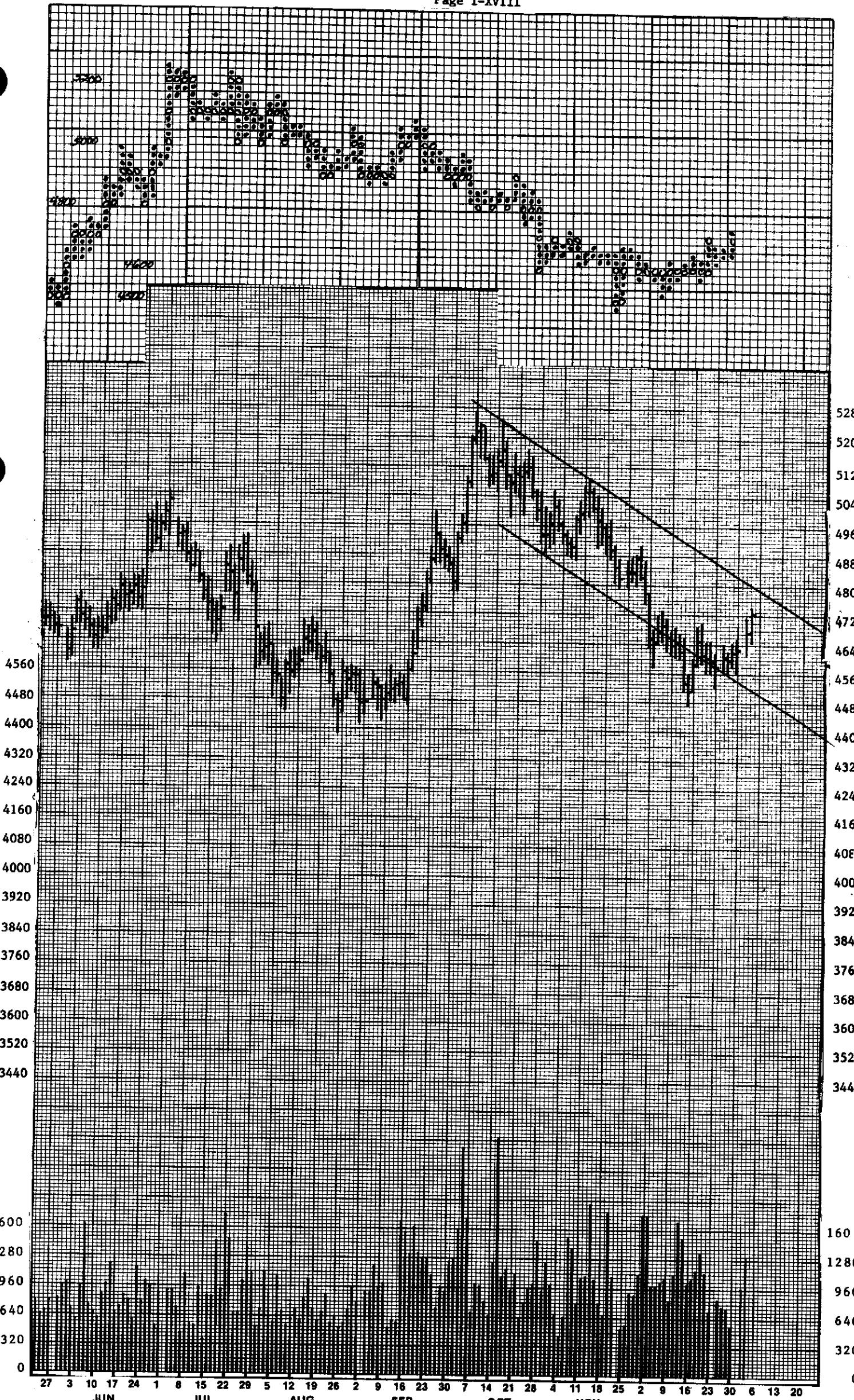
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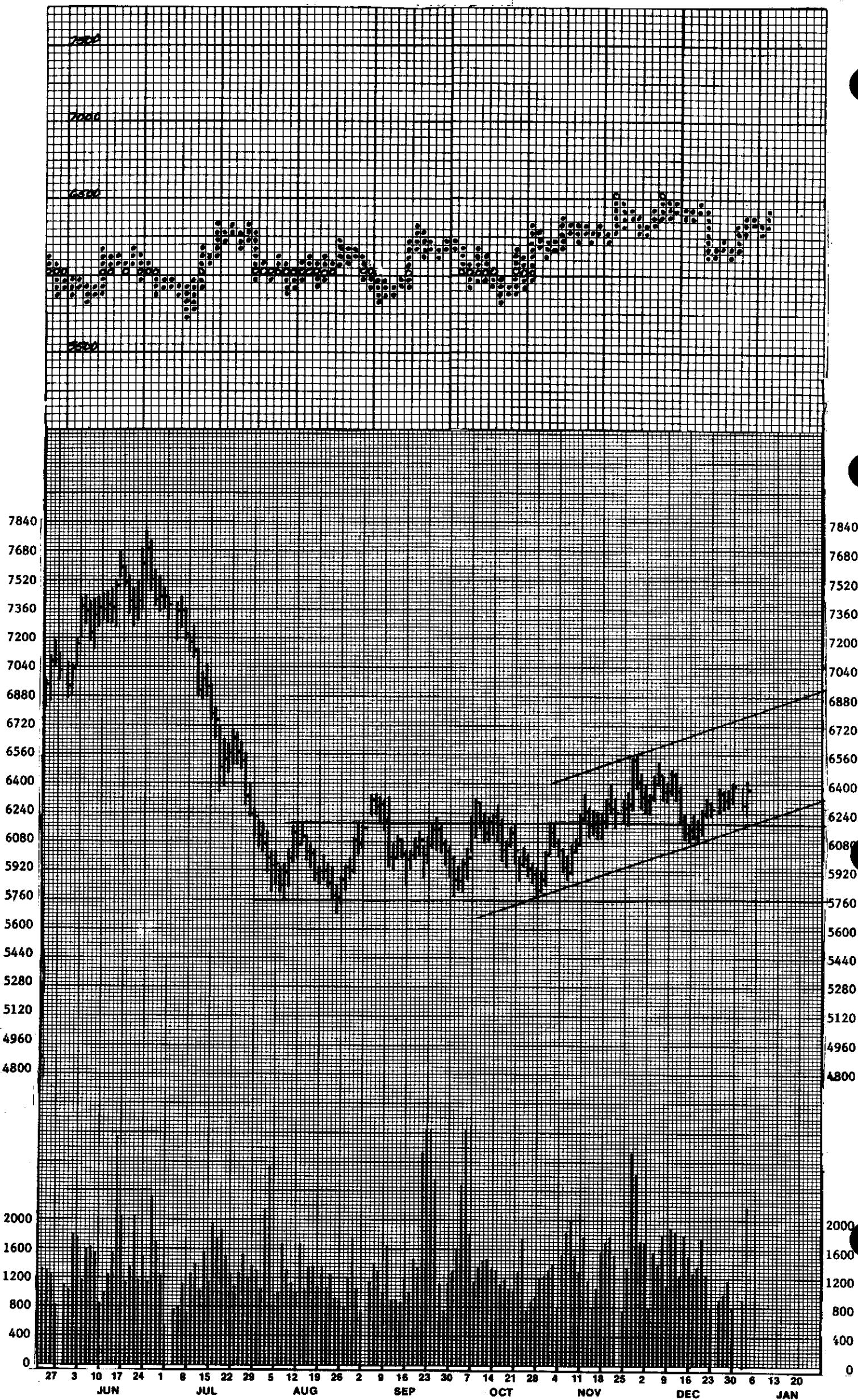
**INDEX CHARTS**

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DRUG GROUP  
4(8BMY+3LLY+2MRK+8PFE+3UPJ)

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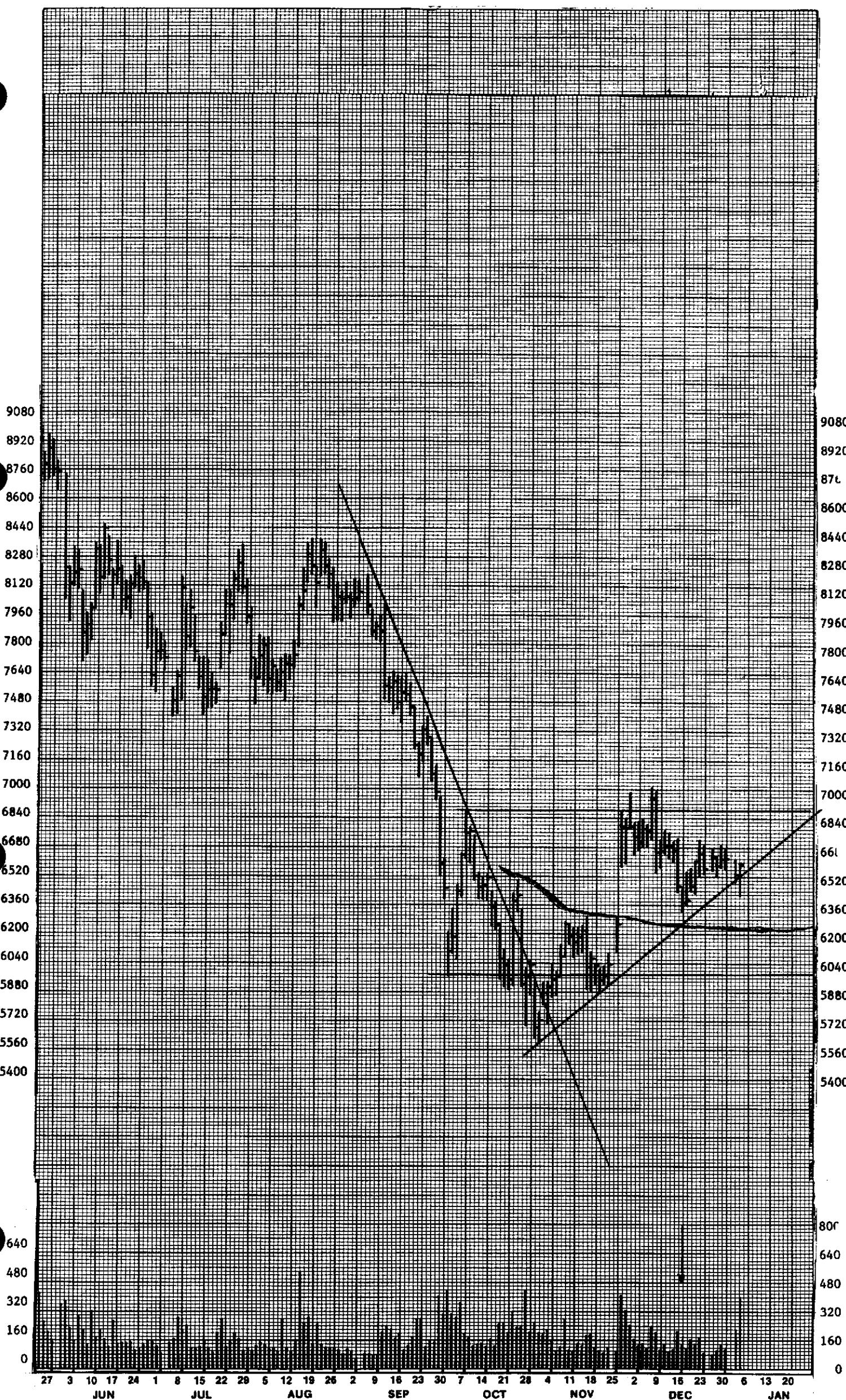


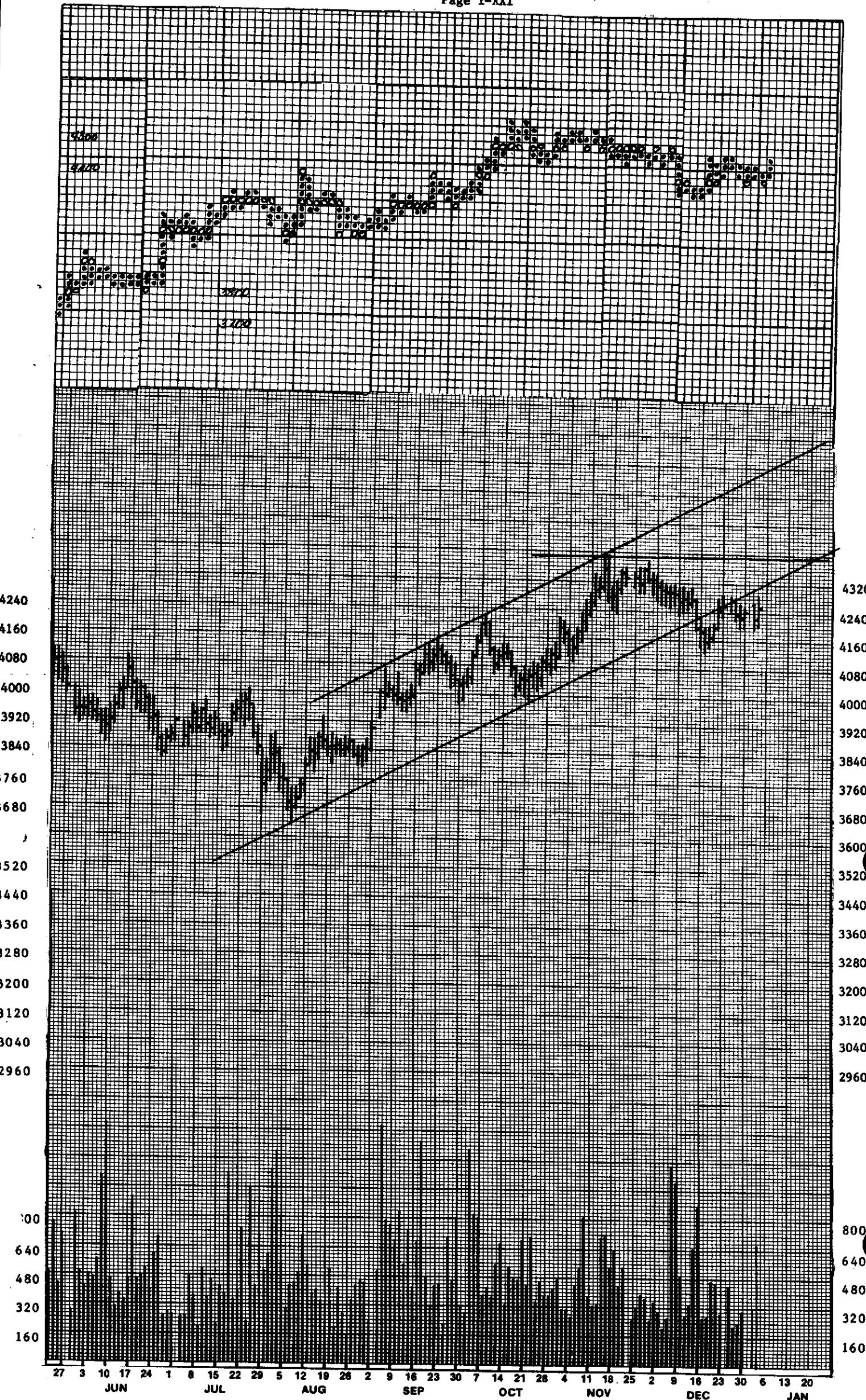
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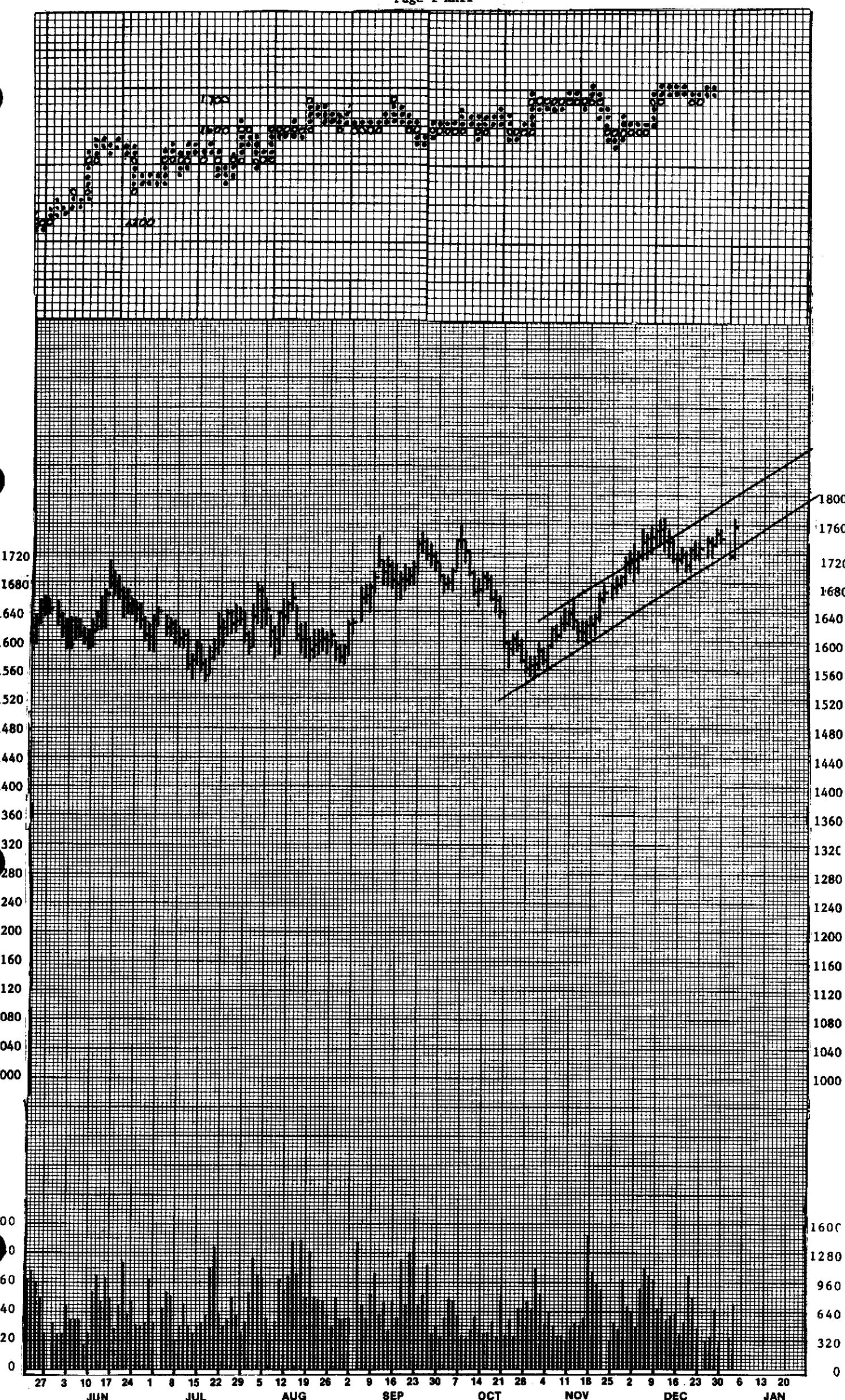
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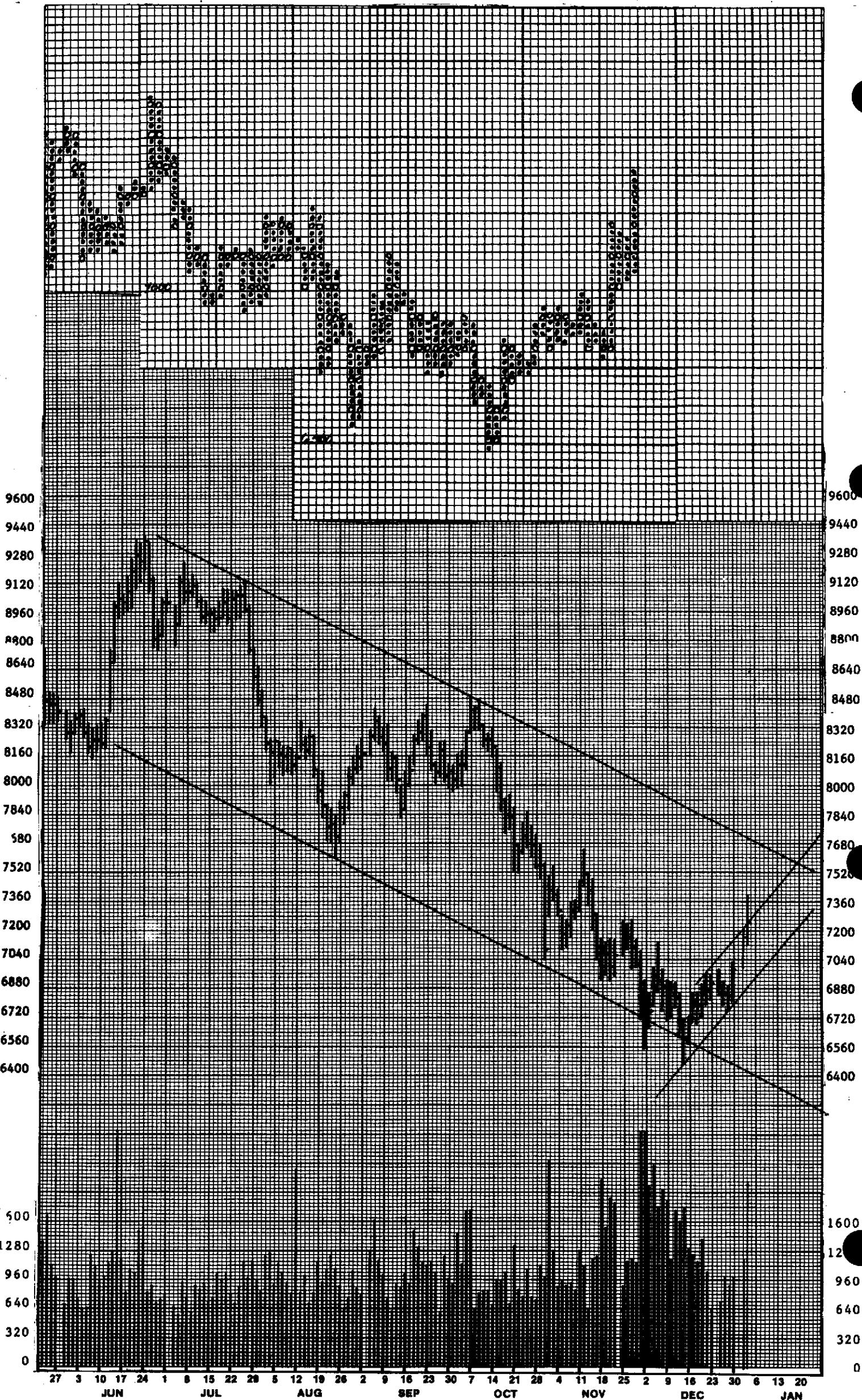
GOLD & SILVER GROUP  
3(6ASA+24CRK+24DM+8HM+36HL.)

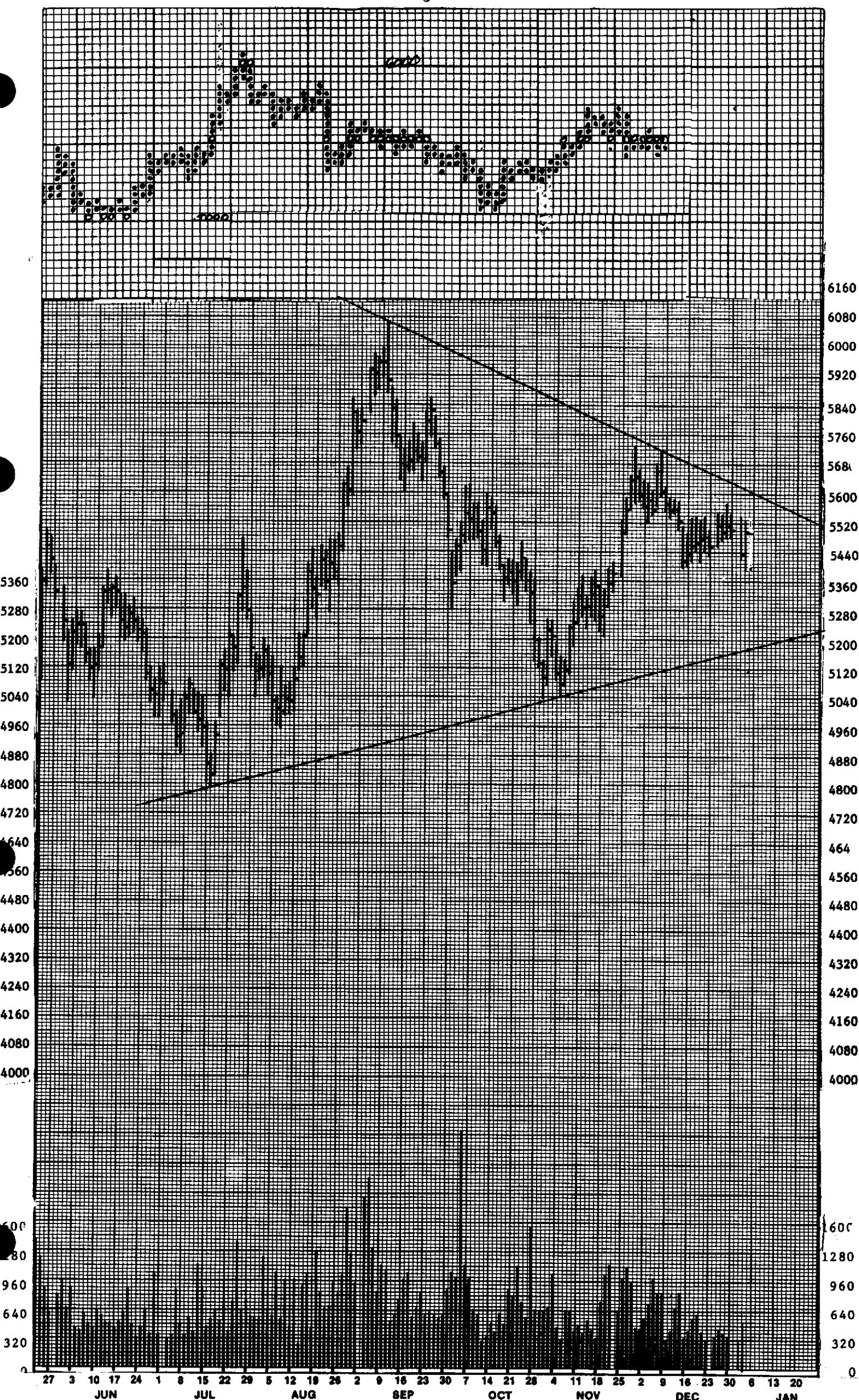
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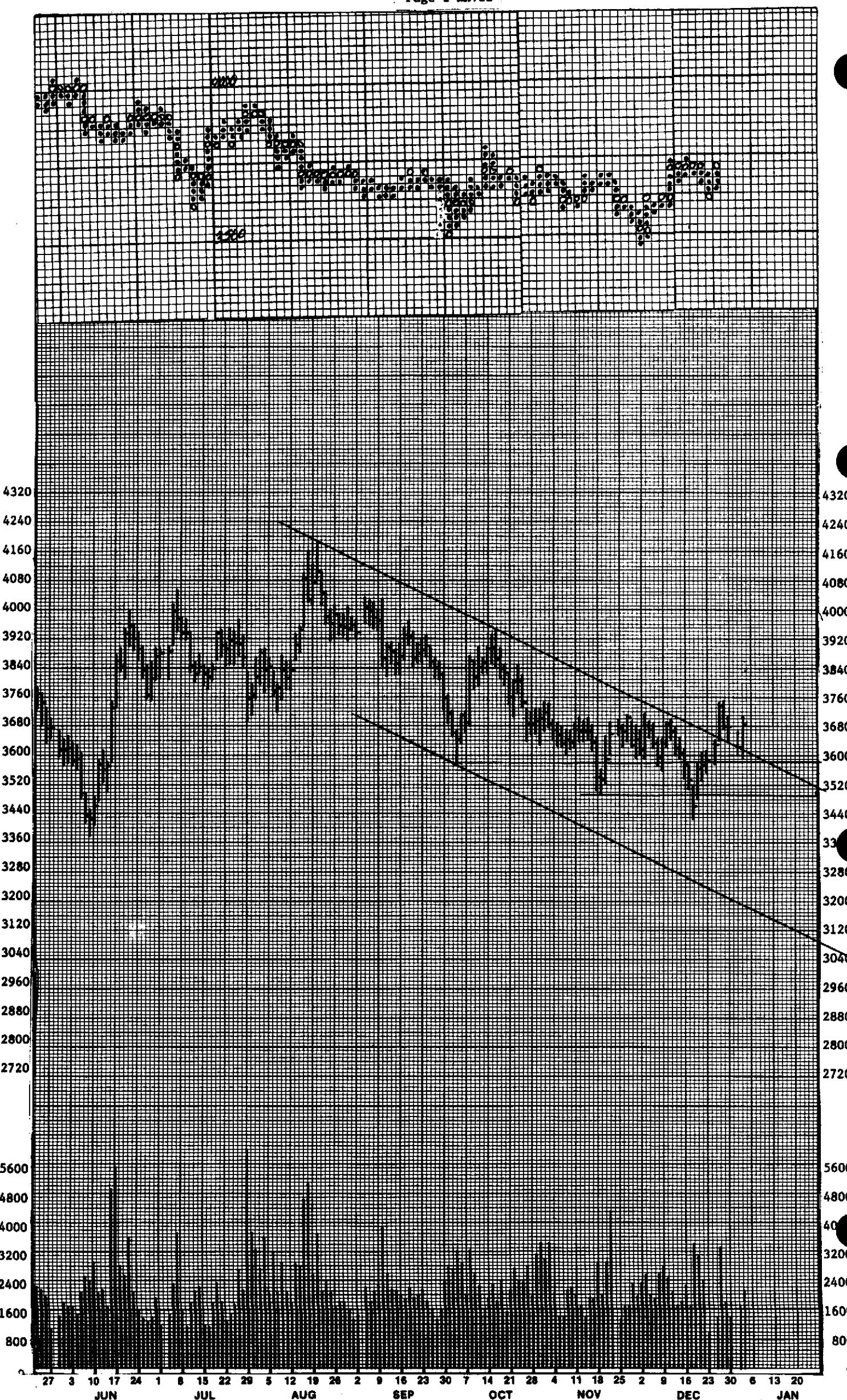
SVII

## INDEX CHARTS

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

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**SMII**

**INDEX CHARTS**

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SEMI-CONDUCTOR GROUP  
3(21AMD+4MOT+36NSM+2TXN+48UTR)

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