STOCK MARKET INSTITUTE *Founded in 1931*

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TRENDS AND TRADING RANGES

Tuesday, June 8, 1982

During the past several weeks, the market has been on the move. That movement has, of course, been on the downside. Many times, a significant move will necessitate a reappraisal of a previously established scenerio for future developments. Sometimes, however, such movement serves to confirm or at least enhance possibilities that were determined earlier. What we have seen in the past month appears to fall into this second category.

The weekly chart of the Wyckoff Wave now clearly shows that the penetration of the resistance level in late April was in fact an upthrust. A month ago, there may have been a slim chance that the penetration was a jump across the creek. It was, however, a very slim chance and long since totally eliminated. Another possibility a month ago was that support would be met quickly near the top of the trading range on a substantial decrease in volume. This would have set the stage for an upside breakout on the next rally. The level of volume has declined, but the decline in the price to the lower half of the trading range eliminates this positive possibility as well.

An upthrust is a penetration above a previously established resistance level on moderate to heavy volume. It is followed by a return to the trading range and then is confirmed by an additional rally on low or decreasing volume that is unable to make a new high. There is no question that the price has fallen back. This important development puts the market one step closer to beginning the second phase of a major decline. We can see, however, that the return to the trading range has occurred on declining volume. This is a problem. It does not fit the upthrust scenerio and will have to be resolved. The resolution can come as the Wave makes its test of the upthrust.

The only way what has happened since the April high can be construed as being positive is if it is labeled a reaction to a last point of support. The justification for such a conclusion would be the declining volume on the pull back. Such a conclusion would overlook the fact that the price has declined too far to be a credible last point of supply. However, if we accept the conclusion anyways, the next rally should be as aggressive as the decline from April. It should also bring out volume as traders scramble to get on board. Failure of this set of events to unfold, which seems almost certain, would result in a test of the upthrust. It would resolve the declining volume problem during the May reaction and likely result in a prime short selling opportunity for what could be a six or seven hundred point decline.

When might we reasonably expect to rally that will confirm the upthrust? The answer is soon and perhaps very soon. The declining volume already mentioned works against much further decline immediately. It is a good reason why those who are looking for a breakout on the downside now are likely to be wrong. Another factor is the declining price spread noticed in the most recent week's action. This in combination with declining volume works against a continued decline. It indicates that support is being met. A third factor and one which is not especially noticeable on the weekly chart is that the Wave and O.P. have now entered a divergent condition when the current levels are compared with the lows of March. This is downside effort not being confirmed by the price and points to a turn to the upside. A final reason for expecting a turn soon can be found in the weekly Technometer, which has become relatively oversold. It is now somewhat more oversold than it was in March when the market was at a somewhat lower level.

Since the rally to confirm the upthrust is likely to be a relatively short term development, we should be able to find signs of an impending turn on the daily charts as well as the weekly charts. This can be done. The first thing we can see is that the divergence that is only hinted at on the weekly chart is indeed a fact. However, it should be noted that the divergence has just begun to develop. Therefore immediate action on the long side based on this one indication would be questionable. It is possible that given a few more days the divergence could be removed. This would eliminate the reason to be looking favorably at the long side and leave any positions that had been taken based on the divergence very much in doubt.

There are several other reasons to be expecting a turn soon. One can be seen in the Wave's current position within its short term down trend. As of Friday, it had penetrated the oversold line. The resulting oversold condition gives reason to expect a correction, which is most likely to come in the form of a rally. The oversold position of the Wave is confirmed by an oversold condition in the Technometer and oversold conditions in the Technometers of the Wave components. All of these oversold indications working together provide a formidable barrier to further downside progress and create an extreme vulnerability to a rally.

With so many indications apparently making the same positive statement, it might seem as though the long side should be jumped on before the market has a chance to run away on the upside. There is some validity to this, but it must be remembered that we are looking for a short term move. Therefore, most investors would do well to sit out the anticipated rally in preparation for a more important opportunity on the short side later. Even those who are short term oriented should be careful here. The ten point figure chart suggests that the decline has run its course, but it gives no hint of cause for a rally. Therefore any rally that does come at this point might be nothing more than a response to the oversold conditions. If so, it could be very short lived and end without much warning. A count could be developed rather quickly, however, if the Wave begins to rally and then backs off one more time in a test of the lows prior to a somewhat more important rally effort. This hesitation could provide the potential to fuel a short term advance.

GROUP ANALYSIS

At this point group analysis has several objectives. How it should be employed depends on the current stance of the investor or trader. If we assume that the individual is currently out of the market, the first objective should be to find a vehicle in which to participate in in the rally. This, of course, assumes that the person is interested in a short term type of operation.

A group that is likely to have a good long candidate is one that rallied more strongly from its lows to the April high. It is also one that has successfully resisted the market's decline during May. In addition, it should be holding more than half of the gain made prior to the market's upthrust and have made a new high along with the market at the end of April. As of Friday, June 4, only one group met all of these criteria. It is the auto group. In it there are two potential candidates. They are Chrysler and GM.

Chrysler is the strongest stock in the group. It may be one of the strongest stocks in the entire market. The reason is that it is one of the very few issues that have doubled in price this year. The fact that this has meant only a four point move is of no consequence. It is extremely difficult for a three dollar stock to move four points in six months. The figure chart suggests that this may be just part of a bigger move that will carry the price to the 9.4 to 11 area. There is a problem, however.

The objectives mentioned above are clearly long term in nature. We are looking for a shorter term move. What's more, we are looking for a new decline to follow. Buying Chrysler at this time for a move to eleven would be an error. It may be able to fight the market and reach its objective. This is a dangerous game to play, however. It is better to go with the market instead of against it.

If there is a short term opportunity on the long side of Chrysler, it will come as a swing from the support line to the overbought line of the uptrend. This is a distance of perhaps a point and a half. In points, this is not much, but it does still represent a substantial percentage move for anyone willing to play with a large number of shares.

There is one other problem facing a short term trade in Chrysler. This is its ability to move quickly. Usually, low priced stocks move slowly. If the market is facing a relatively short lived rally, there might not be enough time for Chrysler to reach the top of its trend channel. If it fails to reach the top the magnitude of the advance is greatly reduced and so is the desirability of a position.

General Motors is likely to be a better candidate for a short term up move. The stock has not doubled in price, but it has done much better than the market. Most recently, it has entered a trading range and is building a count that is close to confirming the previously established objective of 50. Since the stock meets all of the criteria that its group does and since it has the potential of a higher objective, it is the one to buy for the anticipated rally.

At this point, it is really too early to be giving final consideration to short candidates for the expected resumption of downside progress following the anticipated rally. However, some initial consideration is in order. A good group to survey for short candidates is one that underperformed the market on the upside during March and April and which has outperformed it on the downside in May. It would be a group that has failed to hold at least half of its gain. In addition, this group cannot have made a new high in April, but should have recorded a new low at either the March low or the current low or both. One group that can meet all these criteria is the computer group. There is one more criteria, however that it must meet. When the market rallies, the group must retain its position of relative weakness. It will do this by underperforming the market on the rally. If it accomplishes this, within the group there should be at least one and probably more good candidates.

INDEX CHARTS

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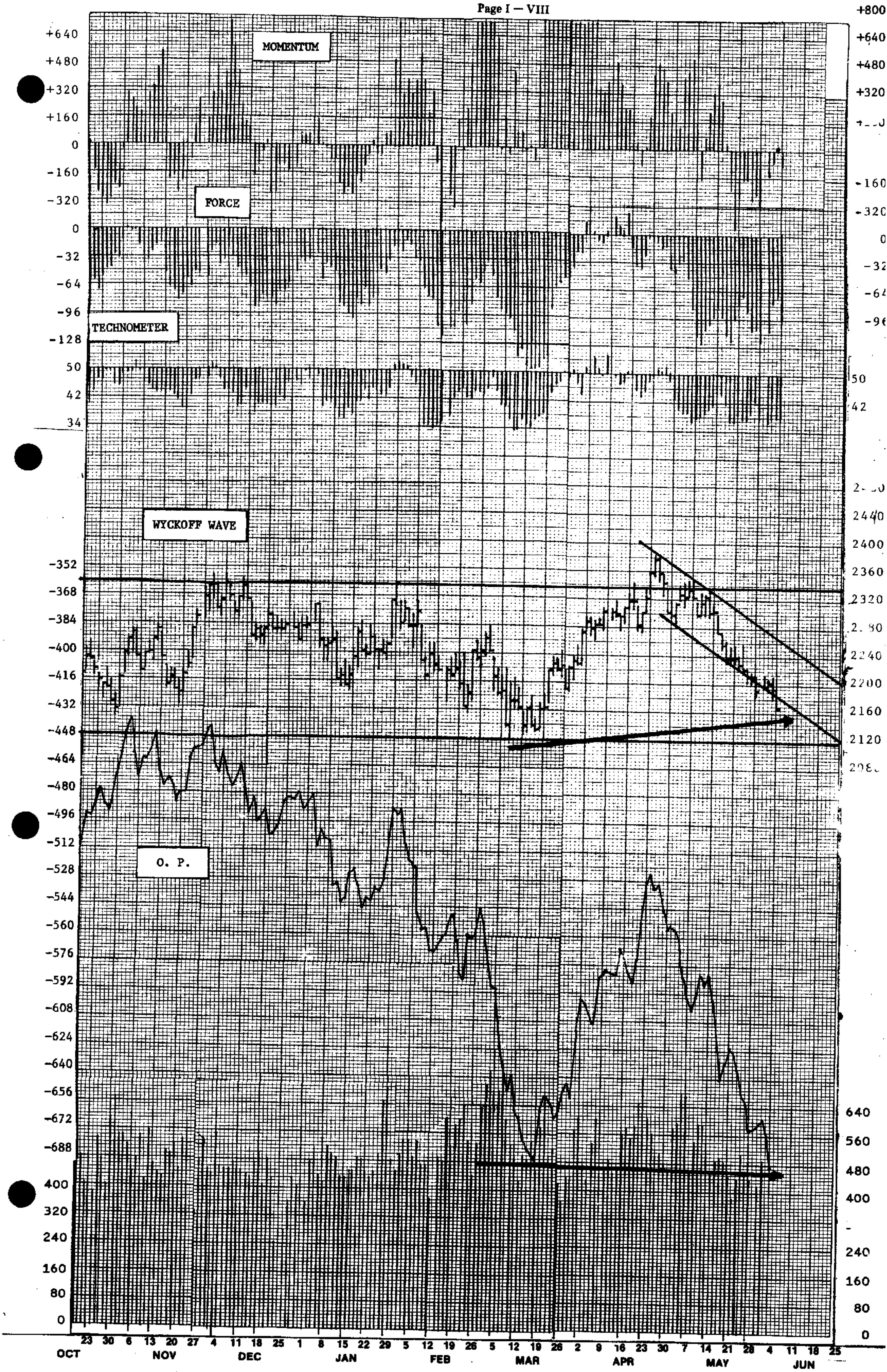

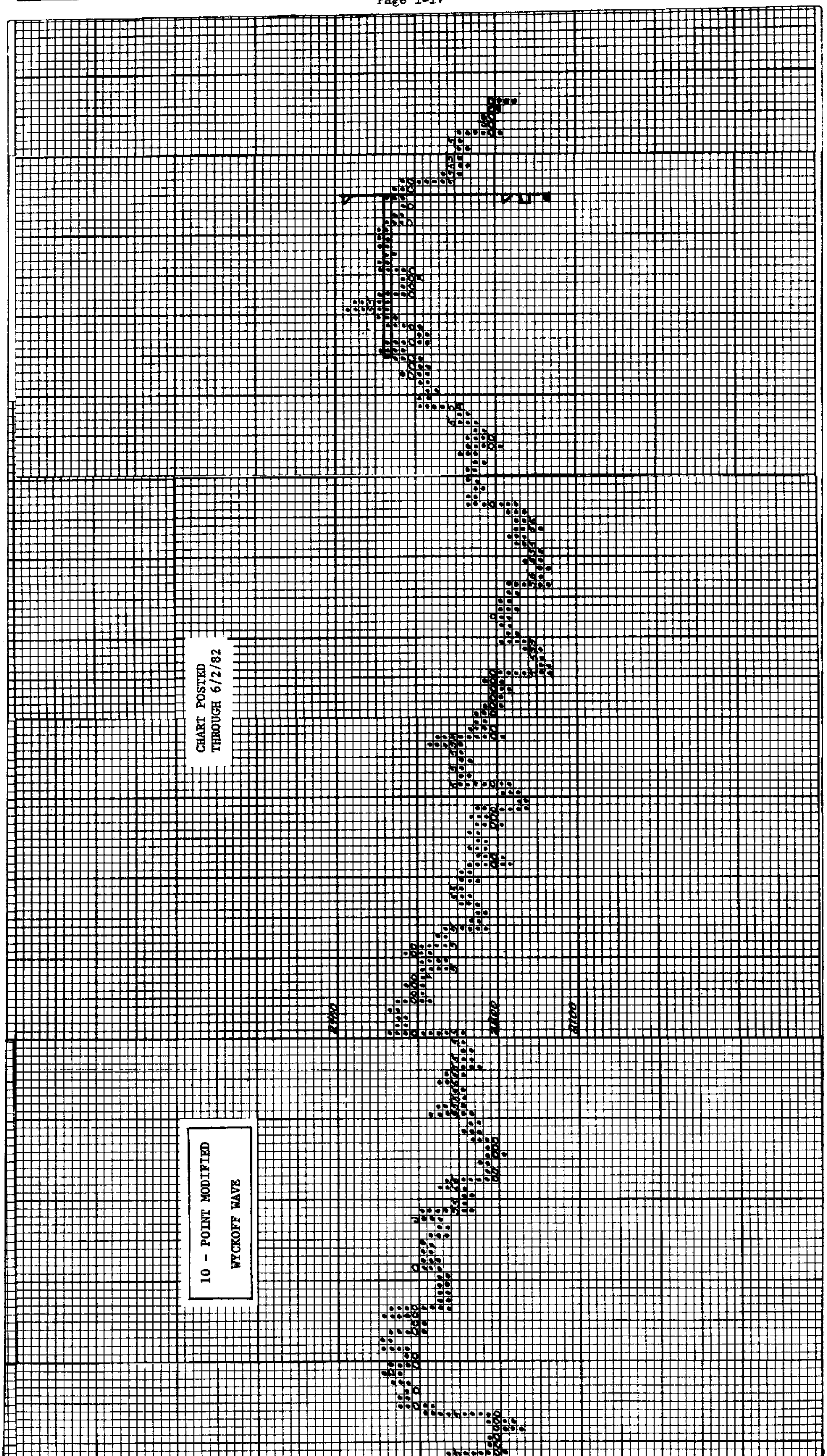
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WYCKOFF WAVE

INDEX CHARTS

STOCK MARKET INSTITUTE, INC.

JUNE 2, 1982.

SMI/WYCKOFF INDEX CHARTS

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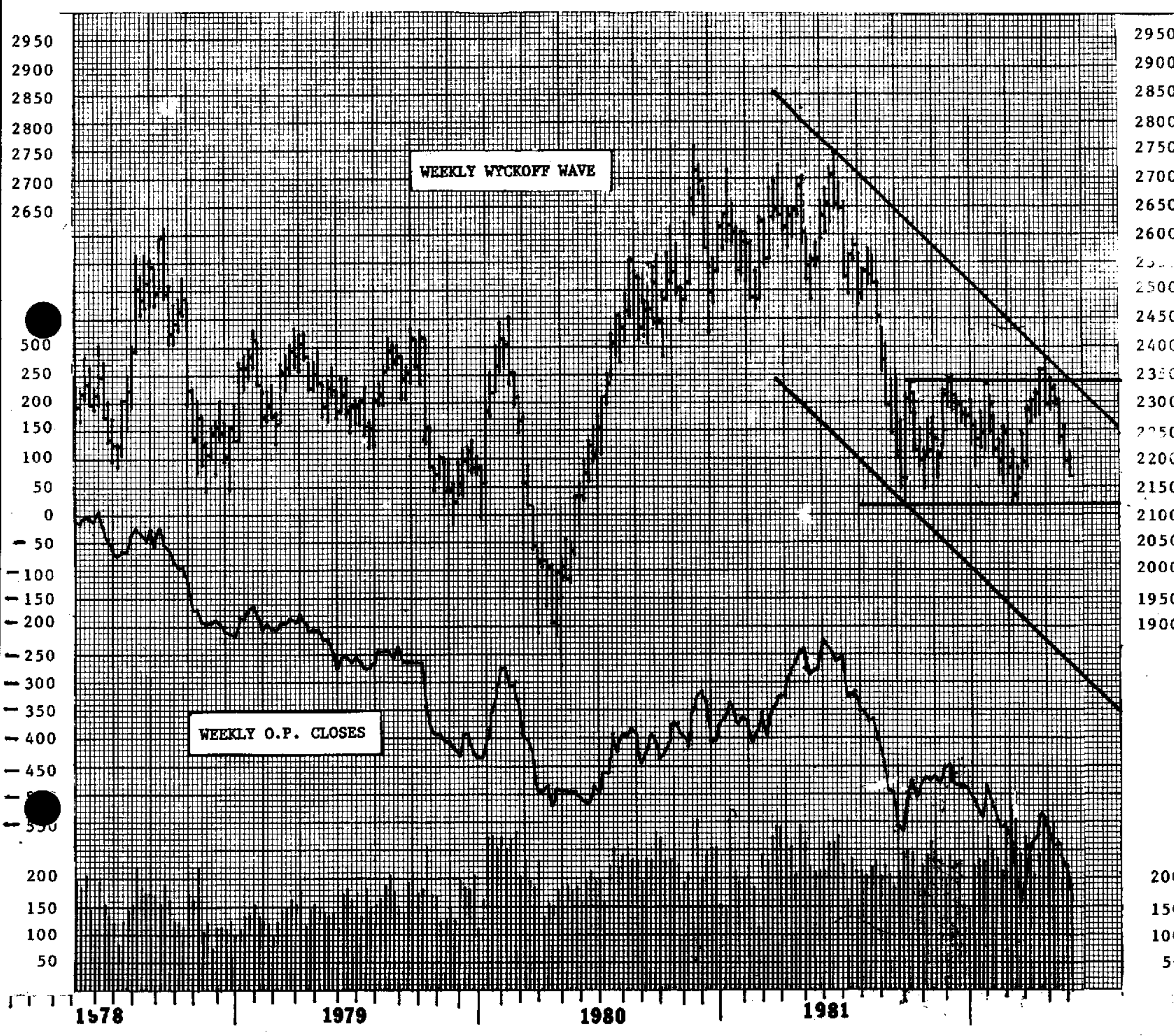
- 50-Point Modified Wyckoff Wave
- 25-Point Modified Wyckoff Wave
- 3-Point of the 10-Point Modified WW
- 10-Point Modified Wyckoff Wave
- Two Point Modified O-P
- ½-Point Time Index
- Trend Barometer/O-P
- Intra-Day Wave Chart
- 5-Point Modified Wyckoff Wave
- Group Indexes

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.



INDEX CHARTS

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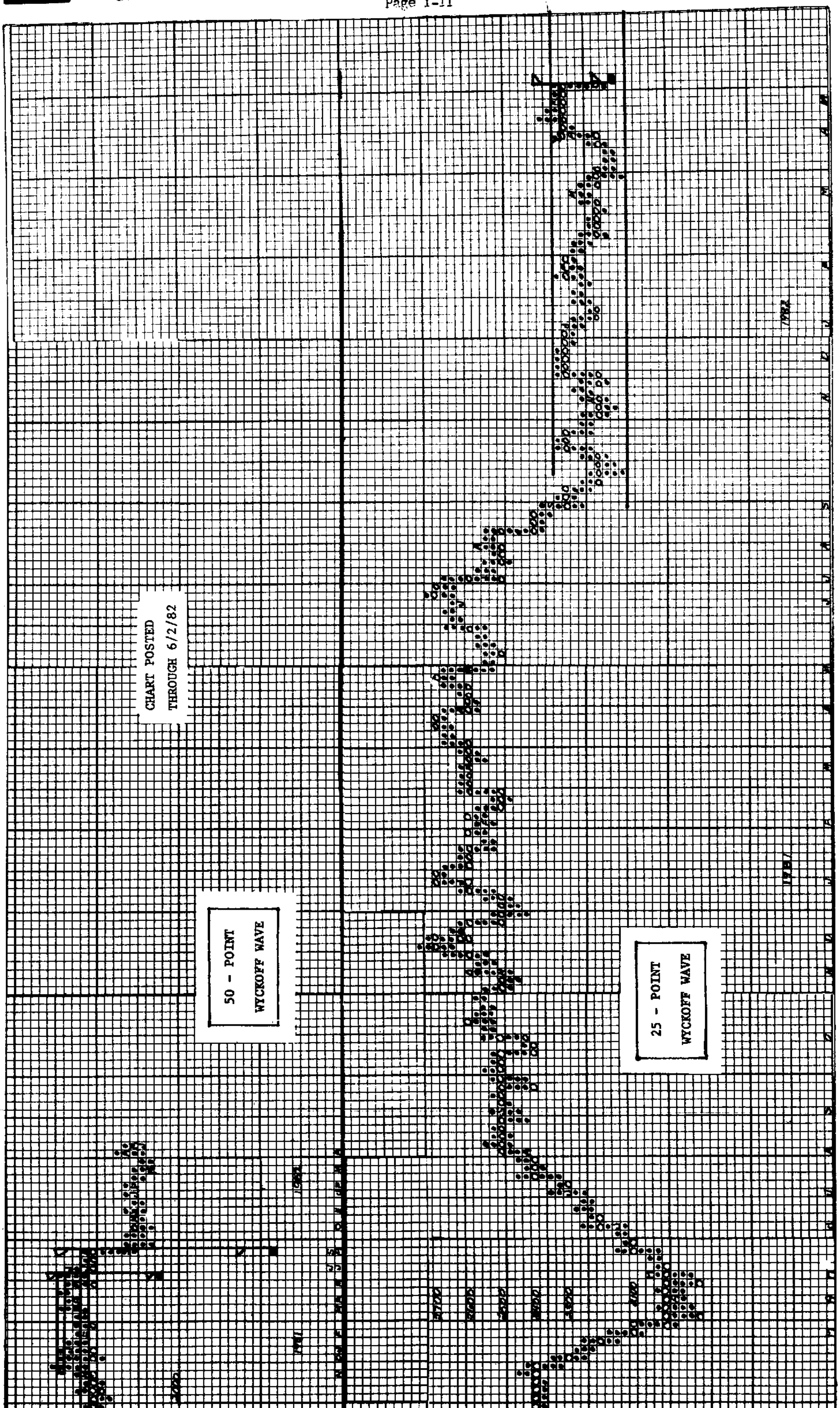

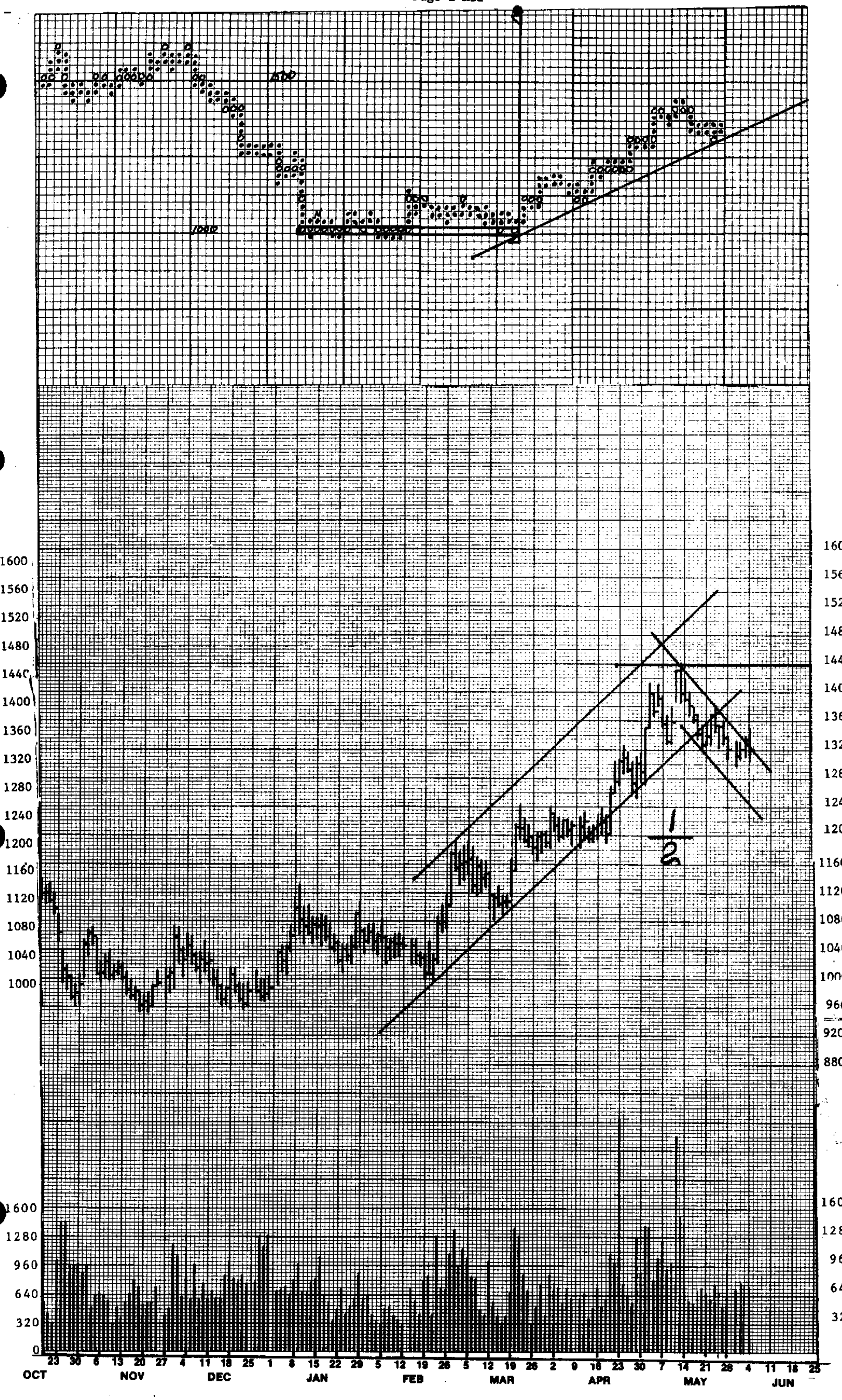
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CHARTING SERVICE

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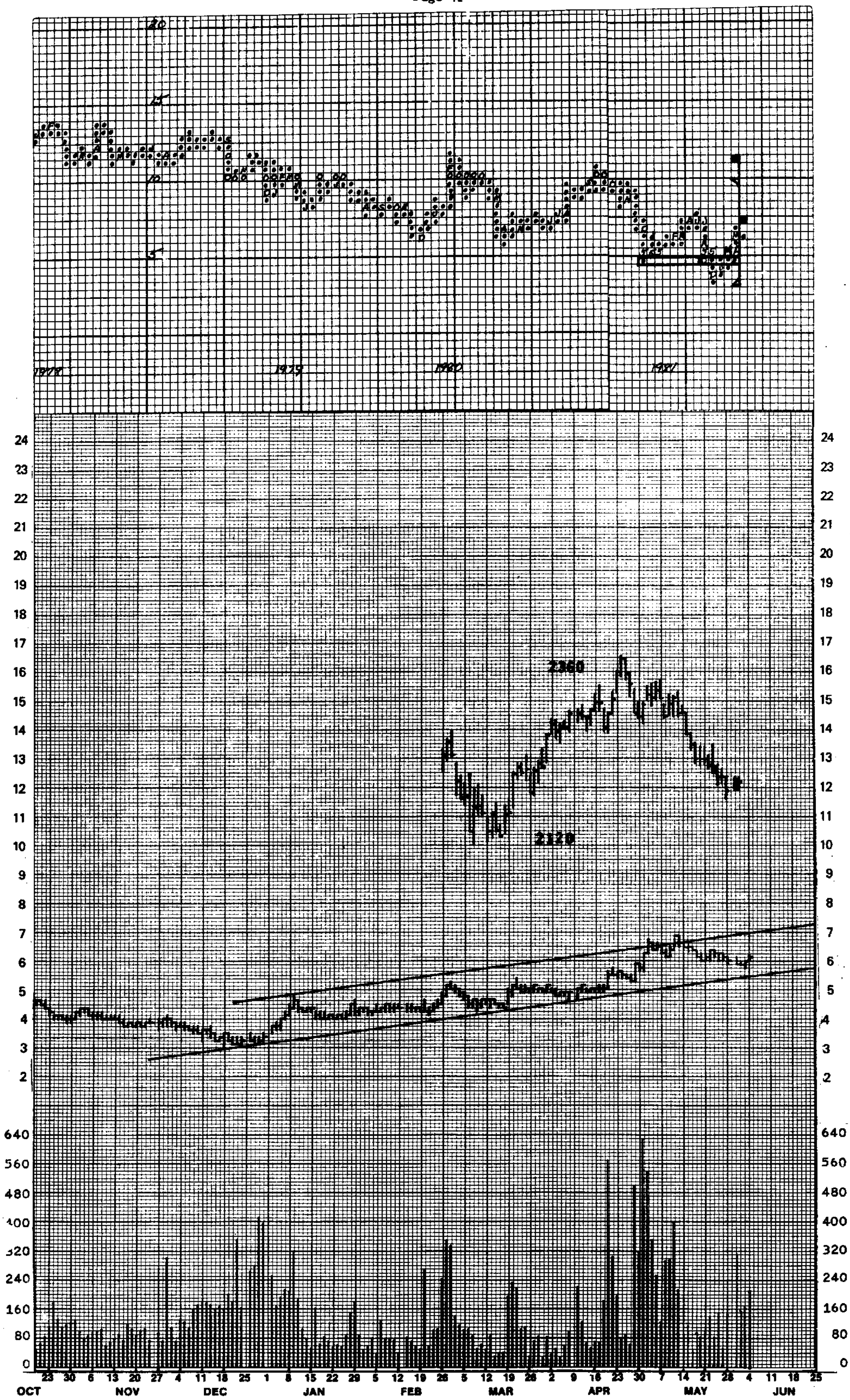

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