STOCK MARKET INSTITUTE Founded in 1931

715 EAST SIERRA VISTA DRIVE, PHOENIX, ARIZONA 85014
(602) 248-8244

TRENDS AND TRADING RANGES

Tuesday, May 4, 1982

The action of the past two weeks has brought what many confirmed and would be bulls have been awaiting. That event was a decisive penetrating of the top of the trading range. Although this fifty point potential breakout comes at the end of a two hundred fifty point rally from the near fatal lows of mid March, it should not be automatically seen as the green light to a new important bull market. The fact is that the penetration of the resistance level has raised more questions than it has answered. Being aware of these new questions and their potential answers could prove crucial to successful trading as the market passes through yet another critical point in the life of its seven month old trading range.

At this point, the weekly chart of the Wave and its accompanying longer term figure charts do a very good job of illustrating what the market has tried to do recently, what it has failed to do, and some of those new questions that have been raised in the process. What the market has tried to do seems obvious. Its efforts since mid March appear to have been directed at an upside breakout. In view of the extremely oversold condition and total lack of harmony between the Wave and O.P. that immediately preceded the rally, it is easy to see where the momentum for the advance of the past six weeks came from. The question raised, however, is whether the momentum was enough to do the job. The answer is not an unqualified yes.

In its run from the bottom of the trading range, the Wyckoff Wave had two ways in which to accomplish an upside breakout. The first and probably most desirable of these would be a jump across the creek. In order for this to occur, there must be an expansion in price progress and volume as the market passes through a previously defined area of resistance. None of the action during the rally fits this definition with the possible exception of the action during the week ending April 23 (second to the last posting on the chart). Here we do see a substantial increase in volume and a resurgence of price progress as the Wave made its penetration.

An important second step in the jump across the creek action and one that comes before the all important back up attempt, is a follow through on the upside that allows the price to clear the resistance level enough to promote the possibility of a successful backup. It is on this point that the jump across the creek idea fails badly. The final posting on the chart shows that there was almost no follow through on the potential jump and that which did occur was given back by the end of the week. Due to this important failure, the possibility of a jump across the creek is effectively eliminated.

A jump across the creek that proves not to be that will normally be viewed with the passage of time as an upthrust. This possibility will be considered shortly, but first we need to consider the market's second means of accomplishing an upside breakout. This is a combination of events that is still in progress, so it is not possible to say for sure what the final outcome will be. The specifics of this possibility are a more general sign of strength followed by a reaction to a last point of support. In this case, the location of the resistance level with respect to the Wave is a secondary consideration.

A general sign of strength is an aggressive rally in price usually contained by the trading range that is accompanied by expanding volume. There is no question that the action since March has been an aggressive rally from a price standpoint. There is a problem with the volume, however. During the early stages of the rally when most of the price progress was made, the volume was actually declining. It was not until the final stages of the rally as the resistance level was approached that the level of trading expanded significantly. This is further evidence as to why the jump across the creek idea is not realistic and it also puts the sign of strength idea in question.

The possibility of a sign of strength will be confirmed or denied by the pull back from last weeks high. This is the action that may develop into the last point of support. To do so, support will have to come in by the time the Wave returns to the 2250 area and volume will have to pull back to at least its current average level just above two hundred million shares. This contraction in volume is critical. Since there is some question as to the character of the volume on the rally, greatly reduced volume on the retracement is necessary to eliminate the doubt that might stand in the way of taking a position.

Since the rally from March, which may or may not be a sign of strength, penetrated the top of the trading range, there is a slim possibility of a very positive development in the days ahead. The Wave has just reentered the trading range. If it meets support here immediately and the volume contracts as mentioned above, the failure to follow through on the penetration of the past two weeks will not be negative. Rather, it would set the stage for a turn around and a breakout. Bear in mind, however, that this is a relatively rare occurrence. Trades should be passed on it only if the evidence is overwhelming.

With the jump across the creek eliminated and the sign of strength/last point of support idea still up in the air, we must consider the negative side as well. As mentioned earlier, this is the upthrust scenerio. The action of the past two weeks easily fits the first steps in this development. We have seen the penetration of former resistance on high volume followed by a return to the trading range. What is needed now to continue the development is a further retreat into the middle of the trading range, which just happens to approximate the halfway point of the prior rally.

As the mid-point of the trading range is approached, how do we distinguish between a last point of support and a normal upthrust development? The determination should be based on the volume. If the volume remains about where it was last week, the upthrust idea will become more convincing. Certainly no buying should be done if the level of trading fails to back off substantially from its current level. Given a continuation of relatively high volume on the current reaction, the next step will be an attempt to test the upthrust action. On this, lower volume and narrowed spread will indicate a successful test. It will also indicate the desirability of going short and eliminating any long position taken any time since March for whatever reason.

The recent penetration of the resistance level was not the only one during the past seven months. It was the biggest break, but this is not the only thing that makes it important. A much greater potential importance can be found when the fifty point figure chart is brought into consideration. The major count at the 2550 level indicates a downside objective of 1400 to 1600. If a down count is taken at 2350, the six hundred fifty point count yields an objective of 1700. Taking such a count at this point would be premature. However, doing it on the test of the upthrust action would make sense. The mechanics of the chart suggest that the potential could then be seven hundred fifty points for an objective of 1600. This would confirm the previous down count. There is a tendency for the market to begin moving again when counts start confirming each other. Therefore, a successful test of this upthrust should be seen as being more ominous than those which have occurred during the past seven months.

The daily chart of recent developments does not contradict anything said thus far. There are actually two points that provide confirmation. The divergence that developed between the Wave and O.P. since March provided an indication that something was wrong with the rally and called for a downturn of some magnitude. The second point worth noting is the drop in the Technometer. This suggests that the market should not drop too much further before becoming oversold and making another run at the resistance level. This is in harmony with both the last point of support and test of the upthrust ideas.

Action on the long side can be justified on the current reaction as indicated above. If it is taken, the importance of the market breaking through the recent high on a subsequent rally cannot be over emphasized. If it fails, get out. Those who do not want to take the chance should wait. If the market does break out, it will be a major jump across the creek with other opportunities to buy later. Waiting now could result in a more objective appraisal of the next rally. The extra cost that might result in waiting to take long positions would be a small price to pay since it could result in avoiding a major error.

GROUP ANALYSIS

A primary use for the group indexes is as a measure of relative strength and weakness. As such, they can tell us which groups in which to consider positions and which groups to avoid. They can also help to confirm or deny an indication of the general market index. This second use could have proved helpful in analyzing the recent rally.

The high reached last week was the highest level since the September low. Therefore, it is natural that it would have been greeted with some excitement. Unfortunately, only four groups also made new highs. They were airlines, autos, office equipment, and semi conductors. Some others did show good strength in the final stages of the rally, but did not record new highs. Four groups no matter which ones they are do not make a bull market. Therefore, it should not have been too surprising that the breakout effort failed. If those groups that showed strength near the end of the rally can hold it on the reaction, the next effort on the upside should have more of the market pushing in that direction. However, it is likely to be far less than unanimous. Therefore success would not be guaranteed. Long positions of an investment character taken on the current reaction should be taken in the four groups mentioned above. Shorter term positions might also be considered in the aerospace group. It showed considerable strength on the rally, but not enough to make a new high.

If the strongest performing groups since the March low are the ones to consider for a long position, it stands to reason that the poorest performers should be prime candidates for a short position. Remember, such action would not be immediate, but would come if the Wave was stopped around 2380 on a renewed rally effort.

Groups that could be considered as possible short candidates are banking, building materials, computers, machinery, insurance, metals, oils, and oil exploration. Not all of these groups are uniformly weak. If they were, there would have been no rally. Some did participate in the rally. In these cases, it is the character of their participation that makes them candidates.

The banking group participated in the rally, but it never really got out of the trading range it has been working on since January. It never even came close to its November high. Similar comments can be made about the building materials stocks. They also rallied from their March lows, but are even farther from their post September highs. If the market fails at the top of the trading range, both should hold short candidates.

The prime short candidate among the groups appears to be the computers. There was participation in the rally, but only in the form of a rally back to the ice. During the past four weeks, there have been several attempts to break through the ice. Each has failed. If the general market now fails, this group should fail with it and it has downside potential on which to feed.

Another possible prime candidate for shorting is the machinery group, which has just barely participated in the rally. Its relative weakness has continued into the initial stages of the markets reaction with a sharp break on the downside. This could be a fall through the ice with the shorting opportunity to come on the rally back.

Other observations worth noting include the breakdown in the insurance stocks. Their relative strength was unable to lift them to a new high. The break over the past weeks suggests an important change of character. Despite the recent strength in gold, the other metals have remained weak. It is unlikely that this group could survive a weakening market either. Finally, we have the oil groups, which have formed clearly defined trading ranges but that is all. There is no indication that they are ready to move up. If faced with a weak market, their recent build ups could prove to be distribution. Since there appears to be selling climaxes in these groups back in March, they might be able to resist a general decline better than some of the other weaker areas. That being the case, they might be best just left alone for now.

INDEX CHARTS

STOCK MARKET INSTITUTE, INC.

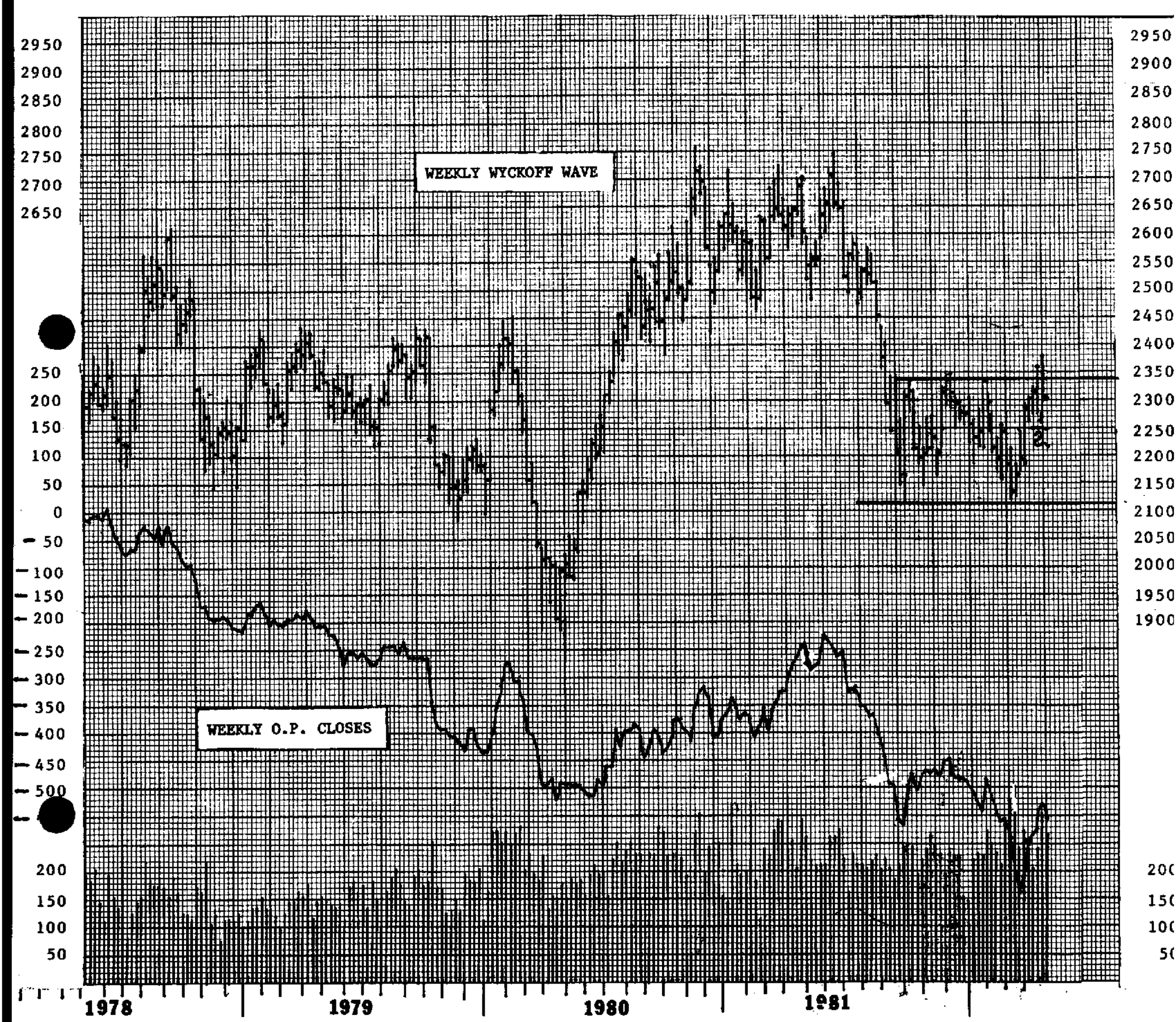
APRIL 28, 1982.

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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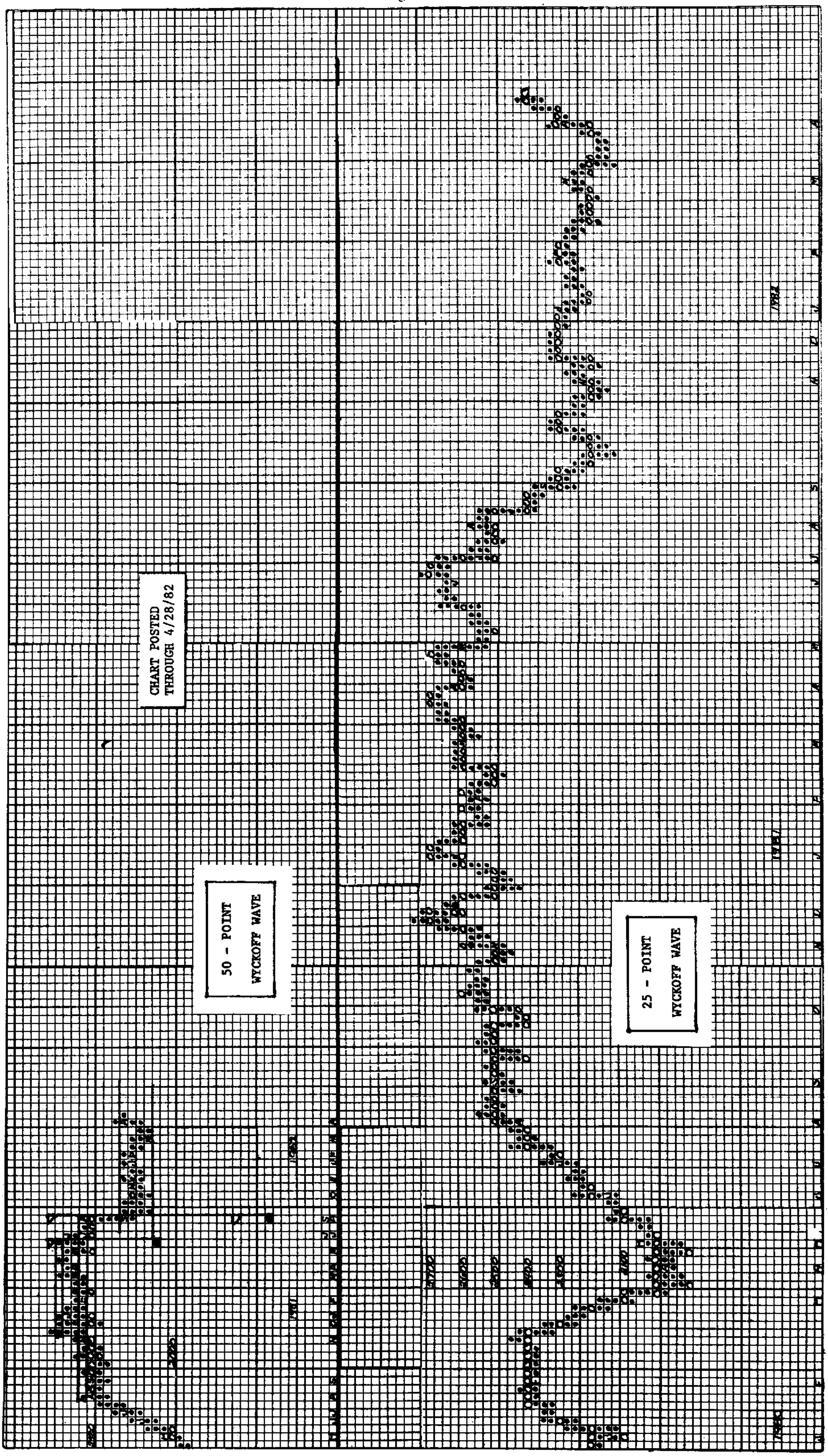
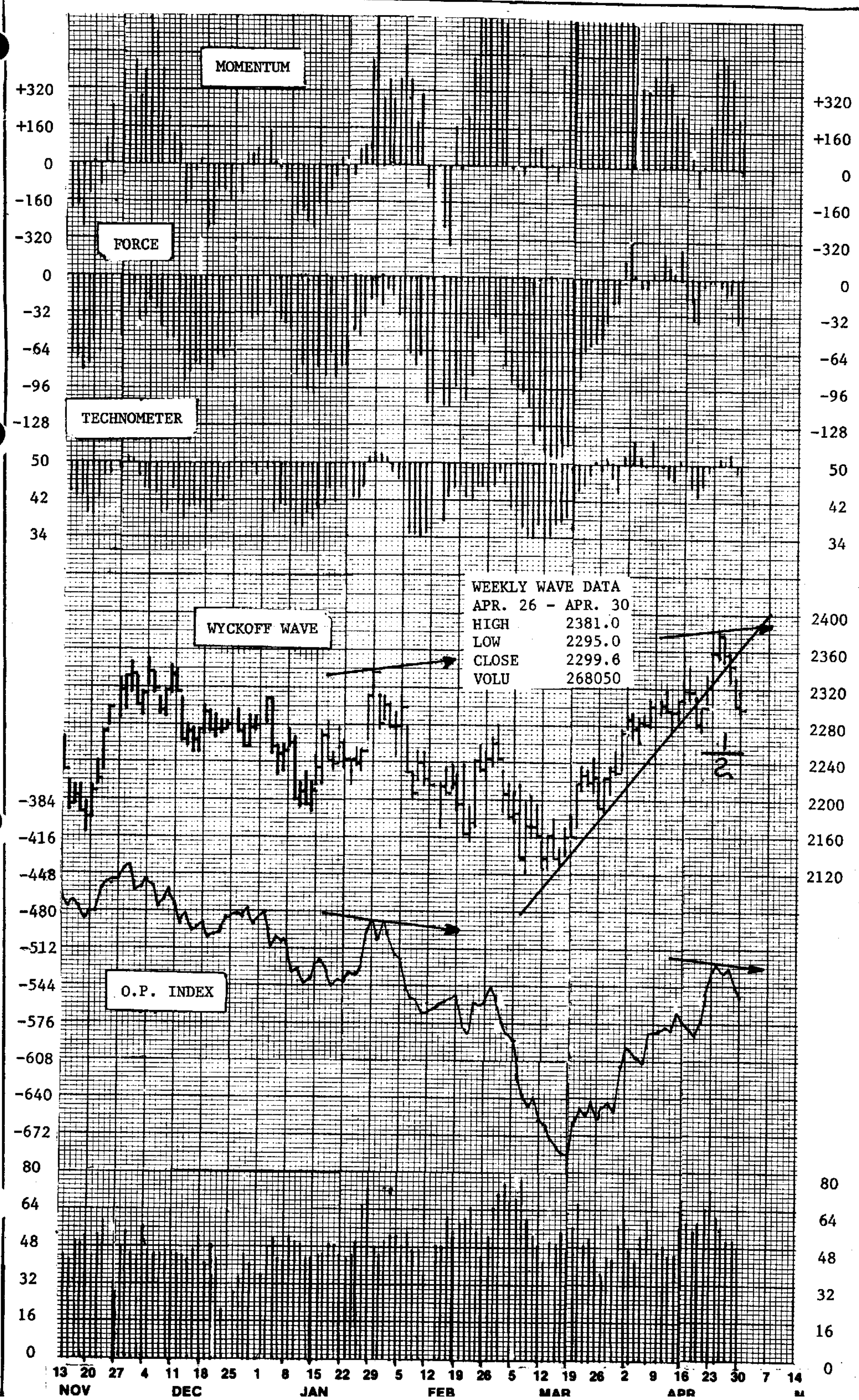


The Pulse of the Market

STOCK MARKET INSTITUTE

FRIDAY APRIL 30, 1982



INDEX CHARTS

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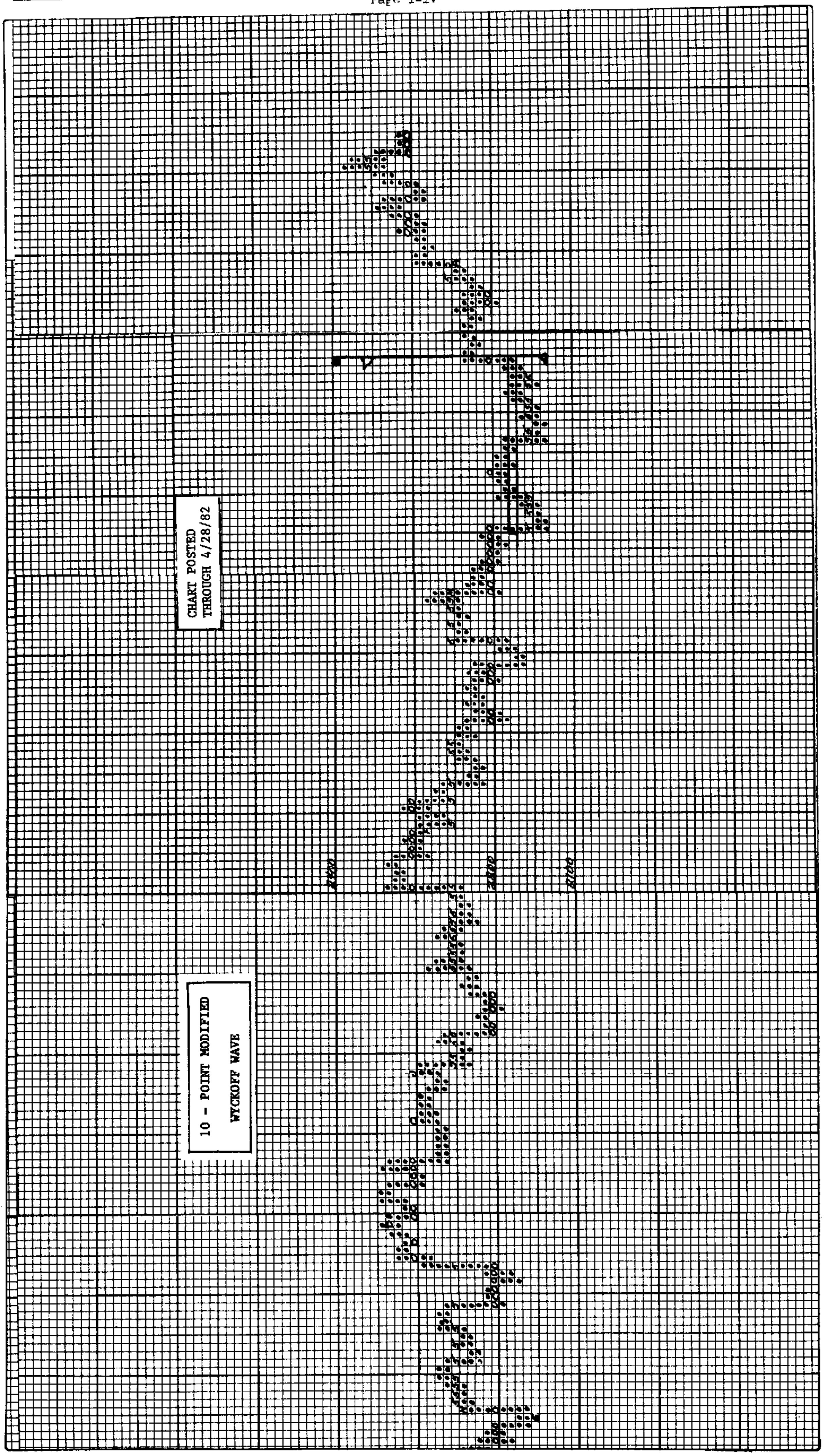

SMI **INDEX CHARTS**

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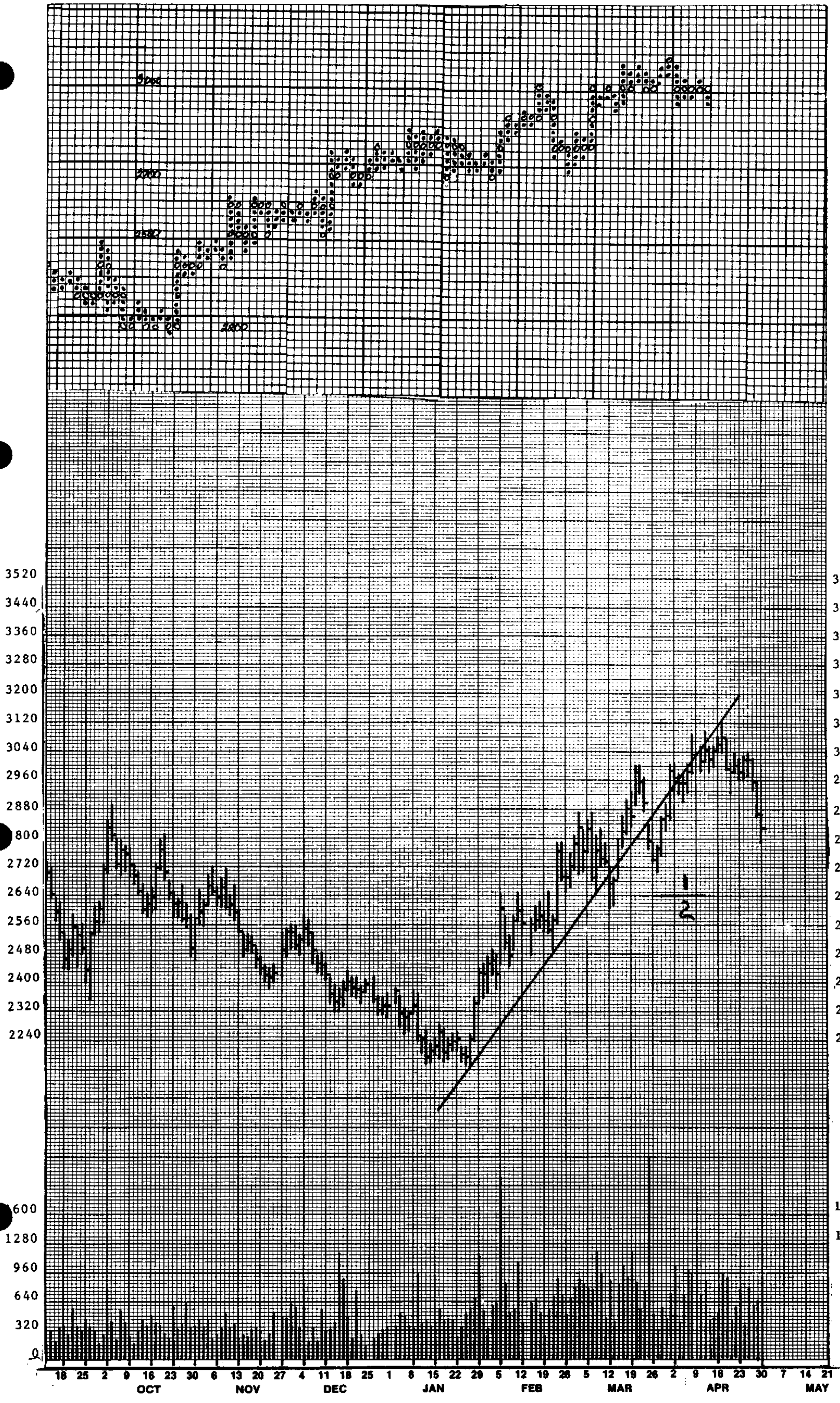
AIRLINE GROUP
6(7TW+2PSA+4DAL+3NWA+4UAL)



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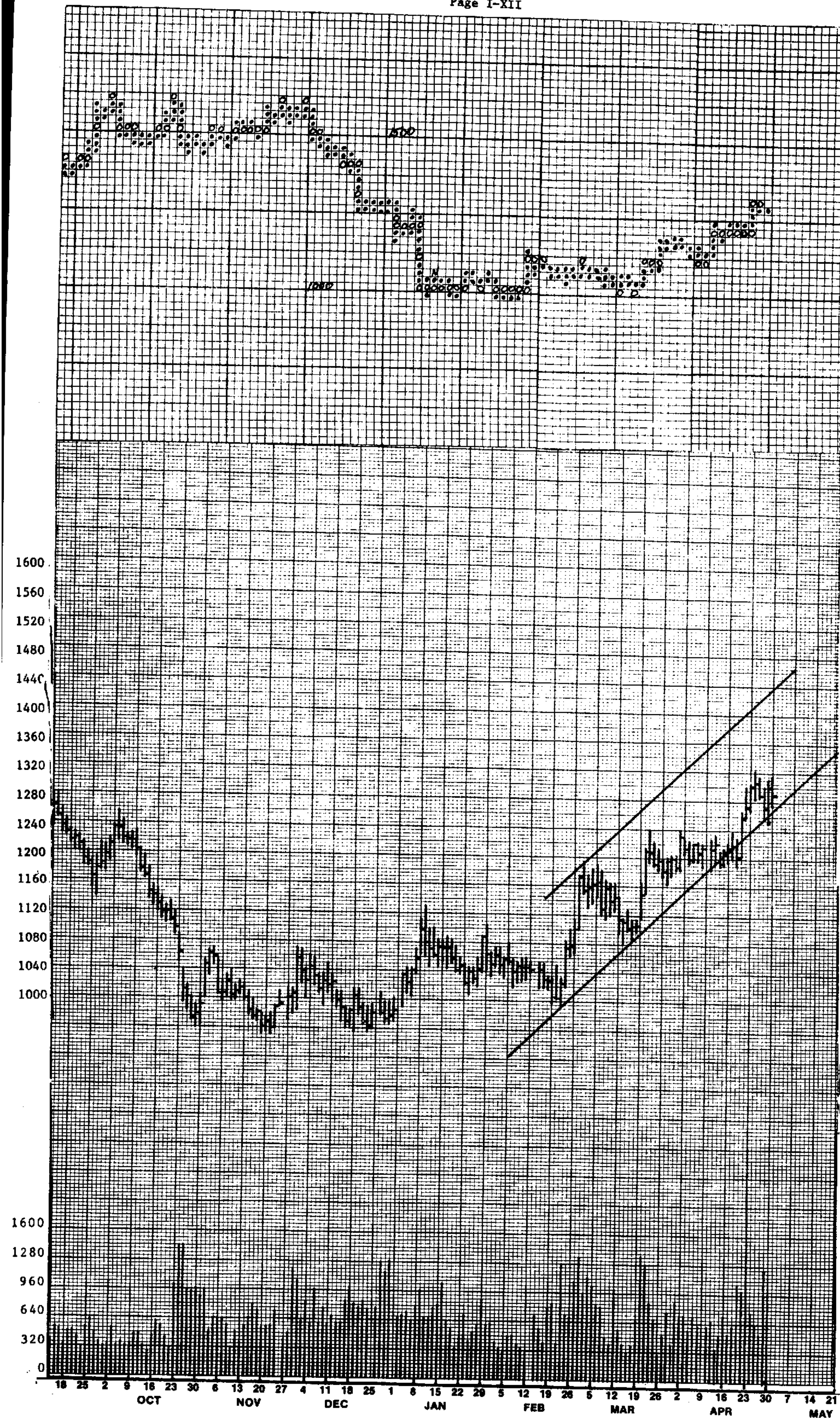
AUTO GROUP
6(11C+3F+2GM)



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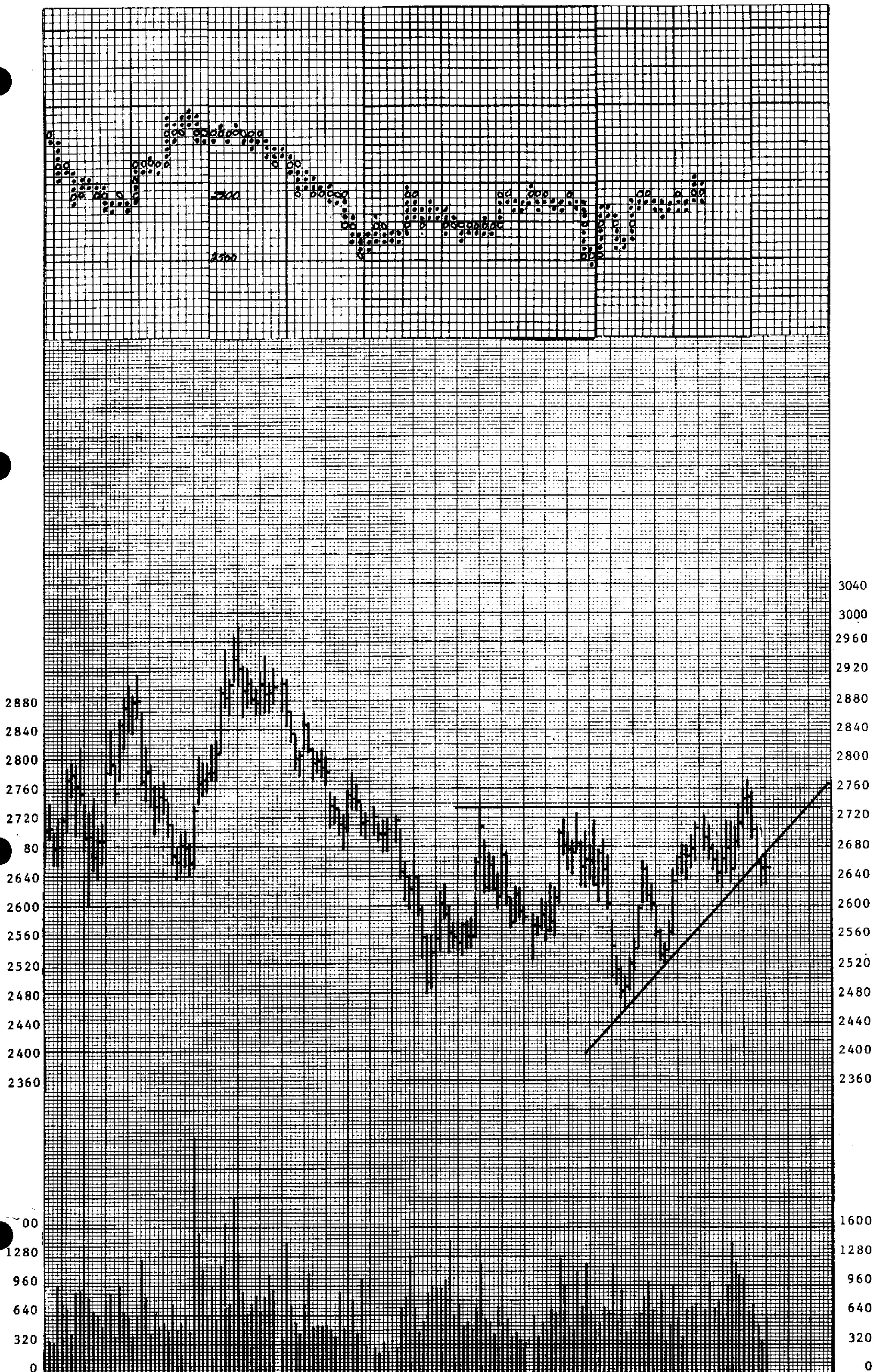
BANKING GROUP
5(4BAC+3CMB+4FNC+6GWF+2JPM)



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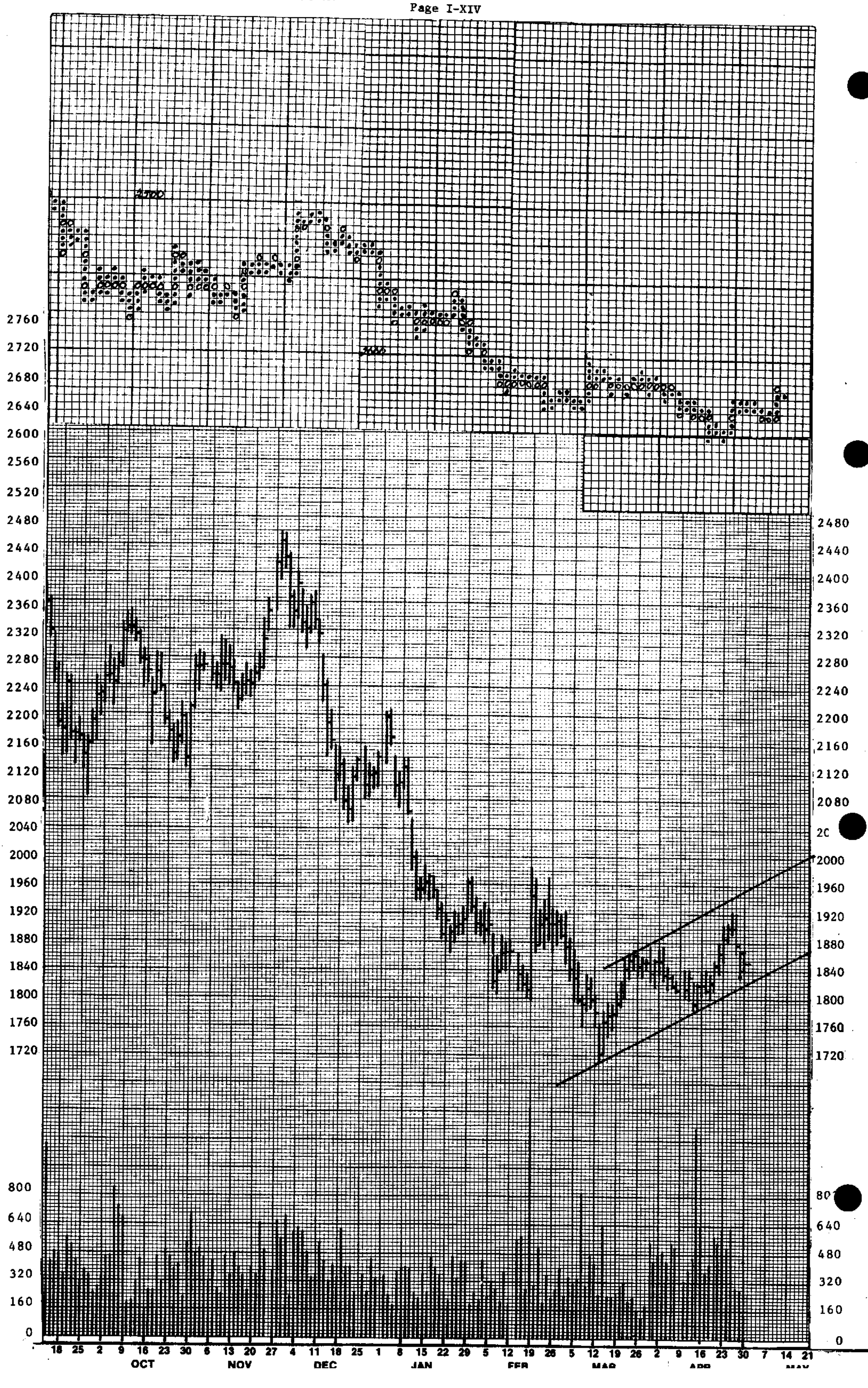
BUILDING MATERIALS GROUP
7(2GP+2MAN+2JWC+4MNC+3WY)



INDEX CHARTS

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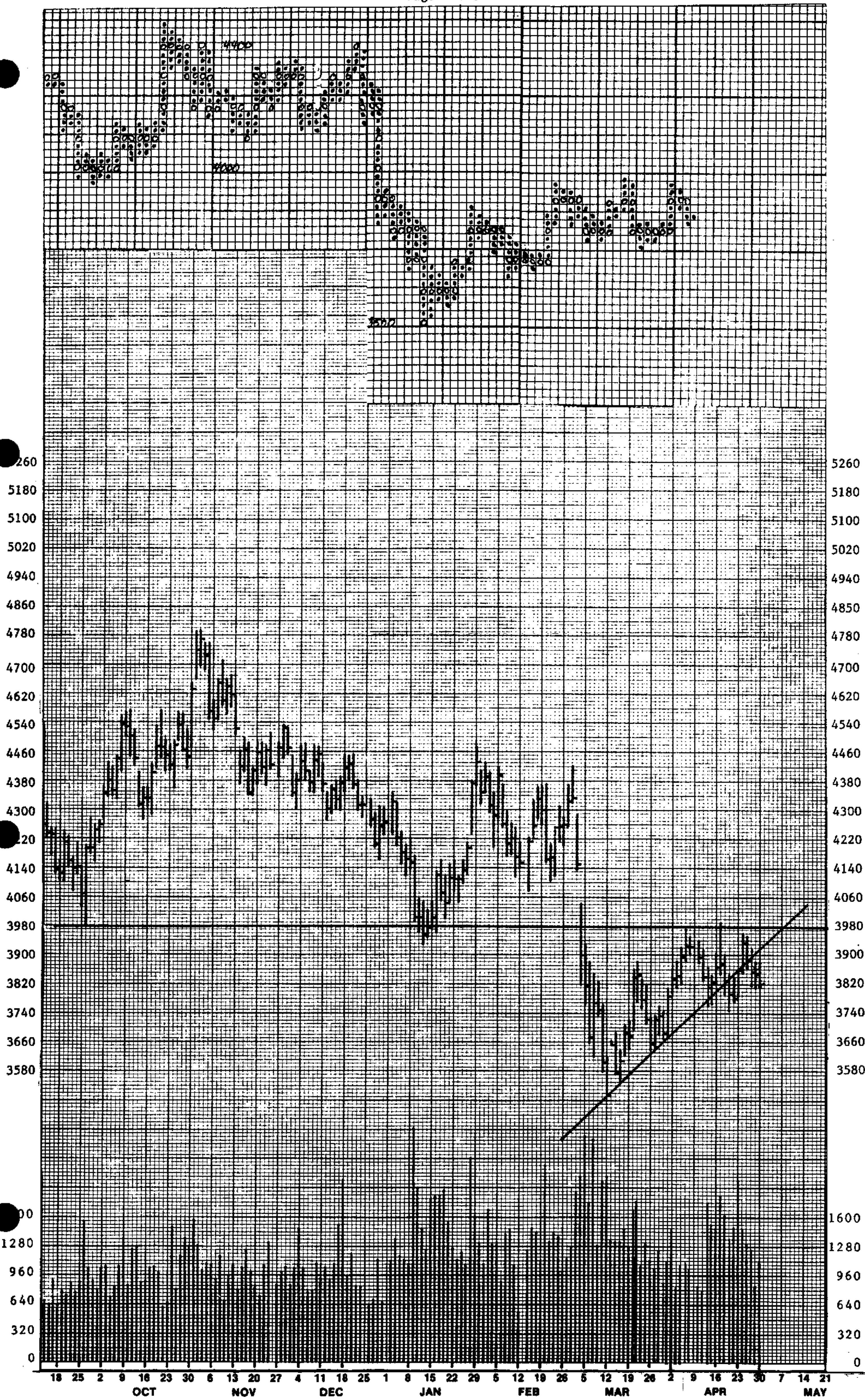
COMPUTER GROUP
1(40CDA+11DGN+12DEC+11HON+8IBM)



INDEX CHARTS

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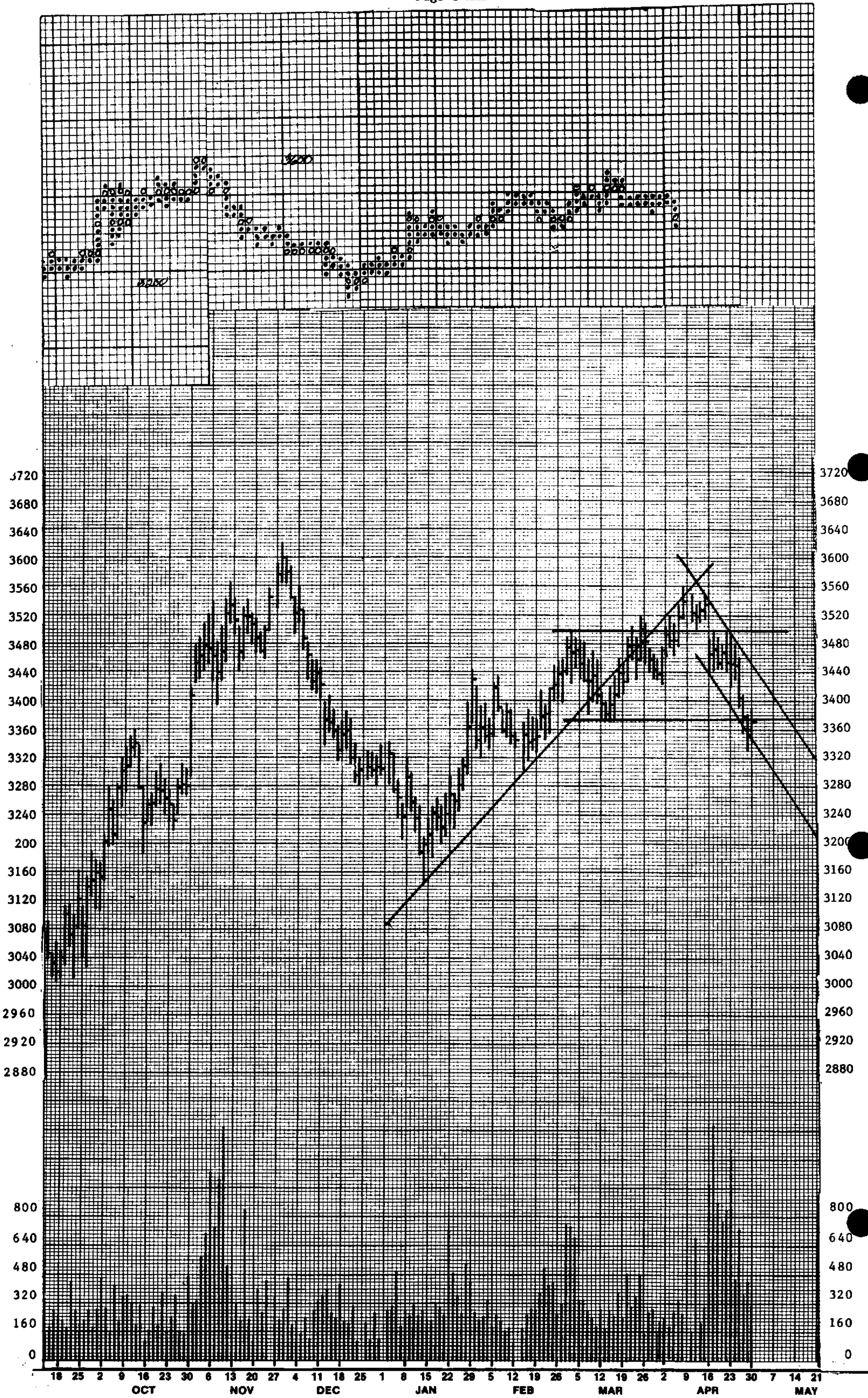
INSURANCE GROUP
4(4.5AET+4.5FG+3LNC+4MMC+4TIC)



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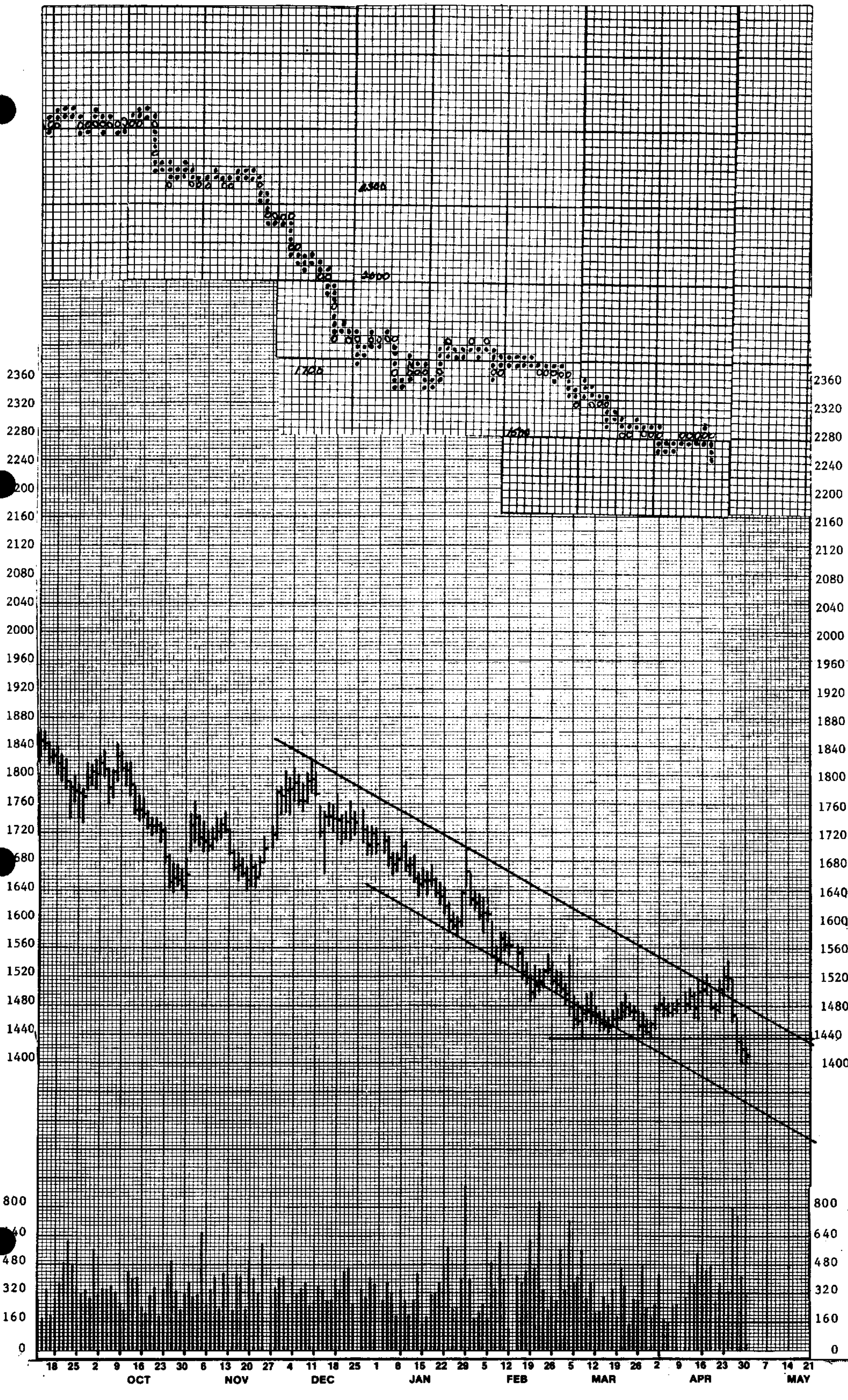
MACHINERY GROUP
4(4AH+2CAT+3CKL+4DE+4HR)



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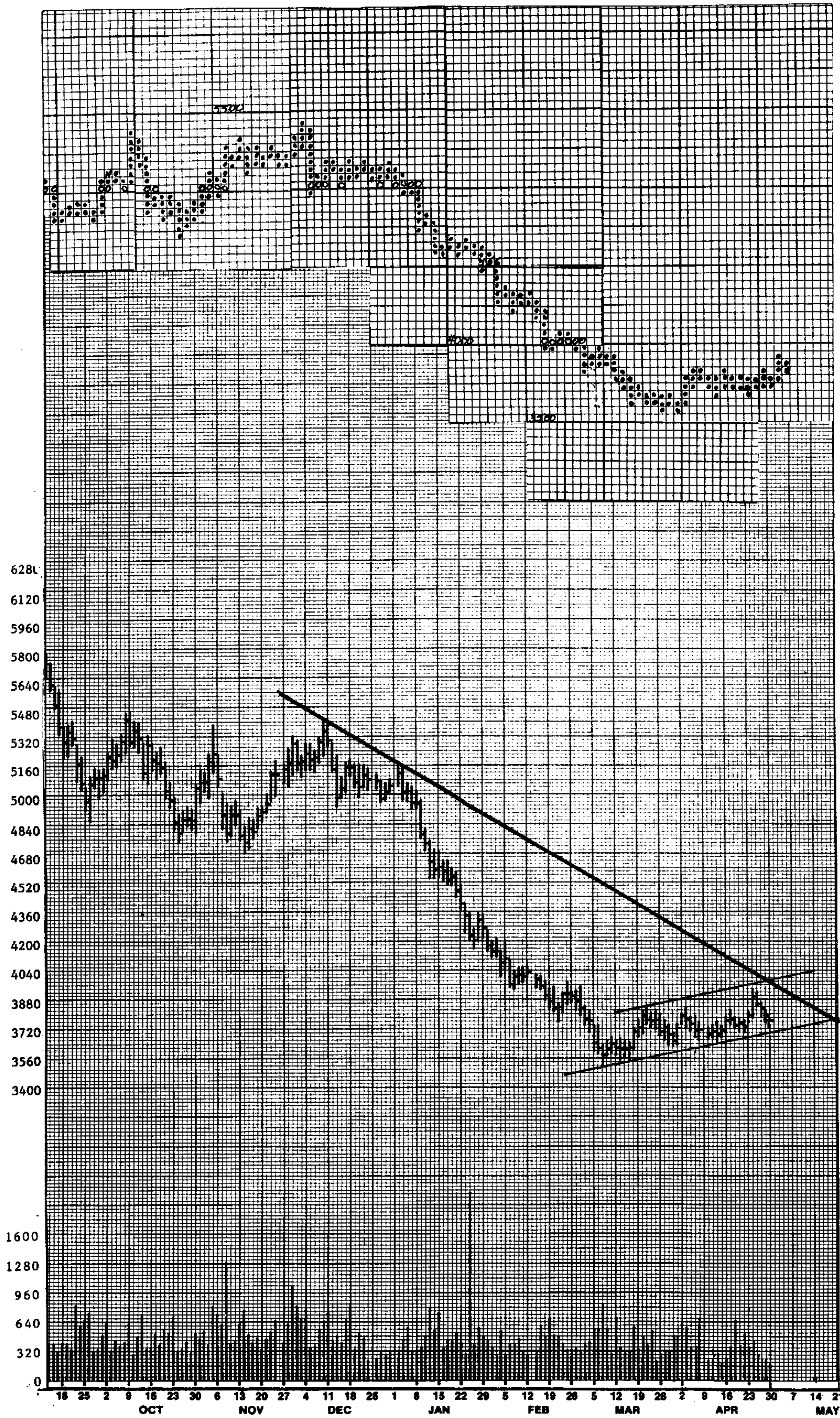
METALS GROUP
6(4AA+11RLM+4PD+4N+6AMX)



SMI **INDEX CHARTS**

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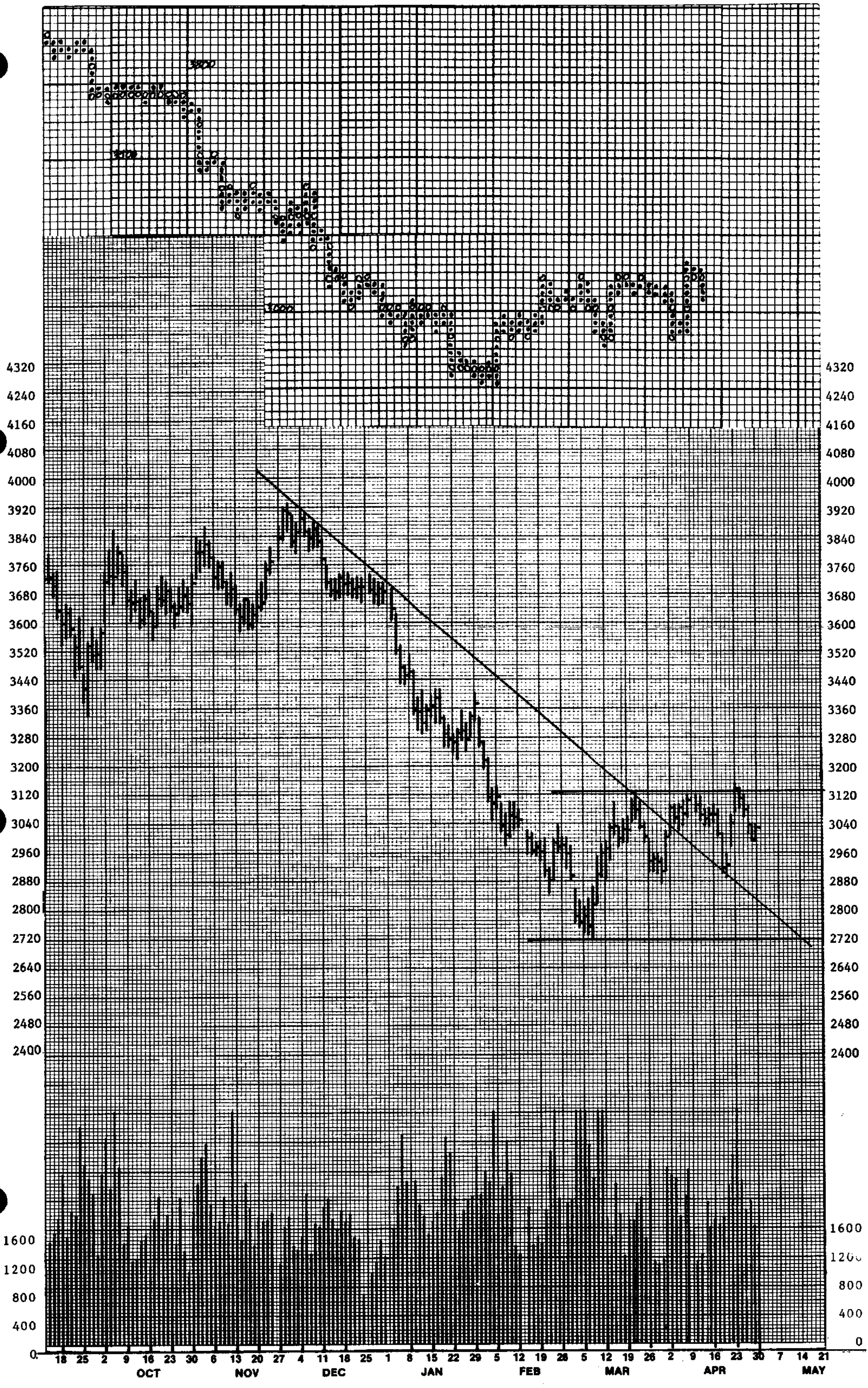
OIL GROUP
3(6ARC+6XON+8MOB+6SD+6SN)



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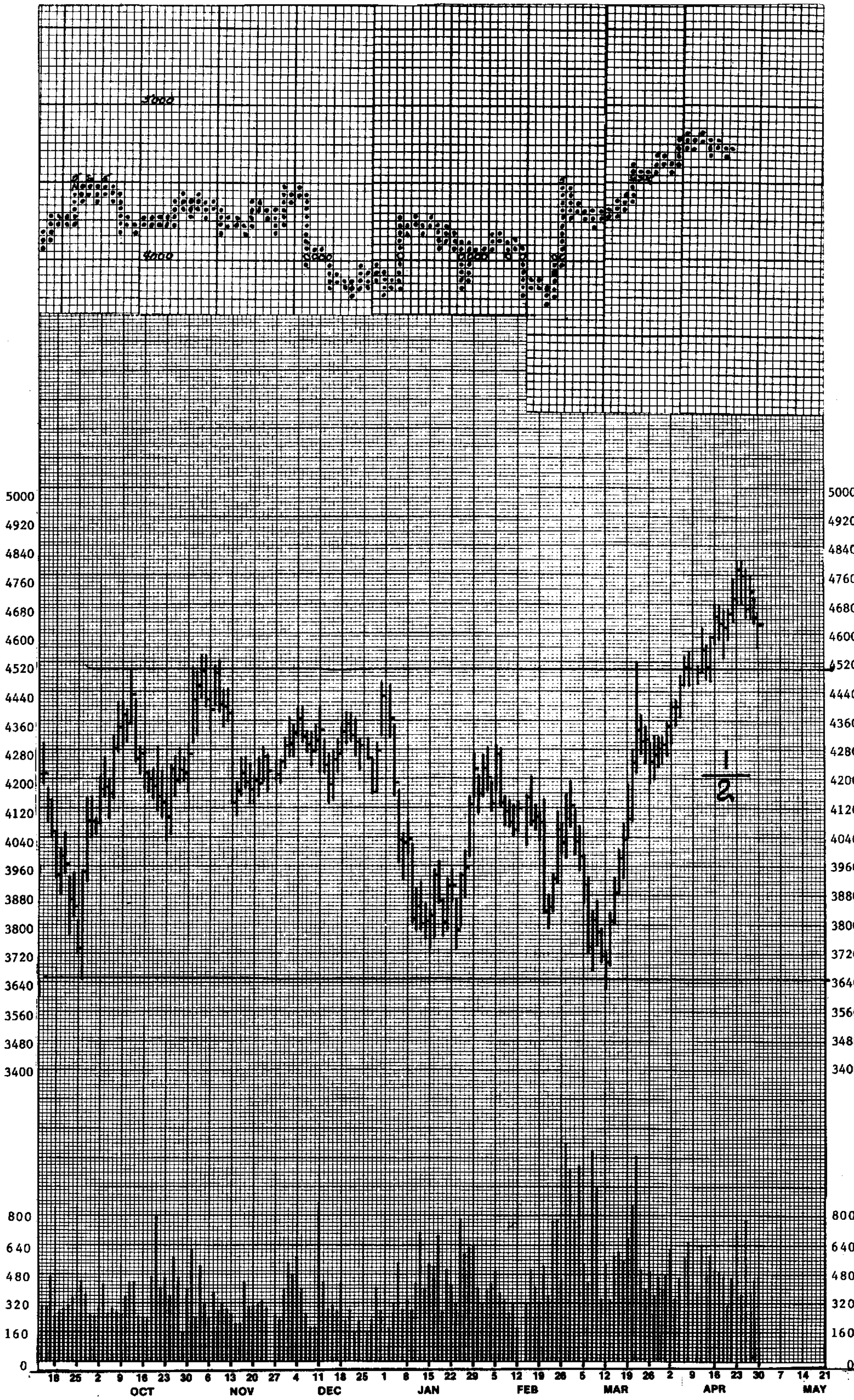
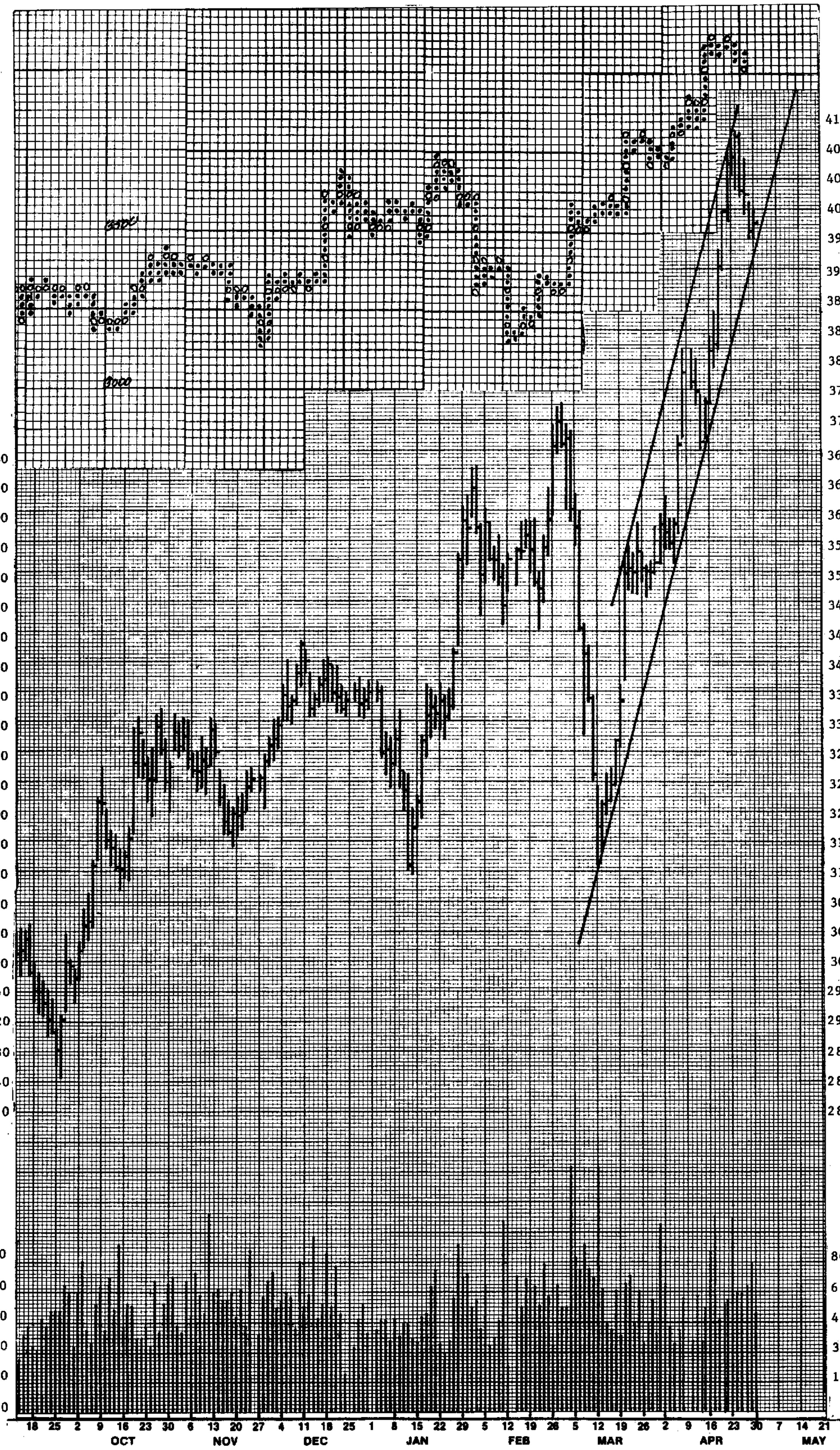
SEMI-CONDUCTOR GROUP
3(7AMD+4MOT+12NSM+2TXN+24UTR)



INDEX CHARTS

Stock Market Institute, Inc.

OFFICE EQUIPMENT GROUP
3(2BGH+13.5DBD+3MMM+3NCR+3XRX)



SMI **INDEX CHARTS**

Stock Market Institute, Inc.

OIL EXPLORATION GROUP
3(6BKO+4HAL+12HT+12PKD+6.75SLB)