STOCK MARKET INSTITUTE

Founded in 1931

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

TRENDS AND TRADING RANGES

Monday, October 31, 1983

The battle between the bulls and the bears for control of the market continues. Thus far, a clear winner cannot be declared. In most battles, the tide of events turns several times before it is finally won. This is exactly what is happening to the stock market. Through much of August and September, the market was trying to turn from being somewhat negative to being positive. In recent weeks, however, the situation has reverted back to one that appears more negative. This is especially true of the long term picture.

A few weeks ago, the Wyckoff Wave hit a weekly high of 4000. Since then, it has backed away from that level quickly on increased volume. A reaction on increased volume is a negative indication. This is also true of the lower top on the rally. The rally to 4000 is made all the more ominous because it serves as the second point to define a new supply line. The low point between the two rallies can be used to define a parallel oversold line. The result is a down trend channel. Since this is the first time in over a year that it has been possible to define a down trend channel on the weekly chart of the Wave. Therefore, it must be seen as a negative development of some importance.

Although a long term down trend channel is now in place, the situation has not become hopelessly negative. Prior to the rally to 4000, the long term trend was neutral. Even though a down trend channel now exists, the Wyckoff Wave is still in that trading range. An important support level remains intact at the 3650 level. In order to work out the downside potential that appears to be in place, this support will have to be decisively broken. This means wide price spread and increased volume. It could happen on the reaction already underway, but it appears more likely on a later reaction. One reason for believing this is the fact that the rate of decline on the current reaction has already started to decrease. This is also true of the level of volume. Therefore, another rally appears in order before the support level is broken. This may develop into a successful test of the supply line. If so, the situation will become even more negative.

The recent rally to 4000 established a count level on the fifty point figure chart. The potential at this level is quite extensive. It amounts to eleven hundred points. This is a downside objective of 2900 to 3050, which is a bit more than a halfway correction of the move up from the August 1982 low. It is exactly a halfway correction if the advance is measured from the 1980 low. Either way it is not out of the ordinary and should not be a problem except for all those that the O.P. indicates have been buying wildly since June.

When viewed from an intermediate standpoint, the events of the past few weeks can be seen as an upside effort that failed. The daily chart shows the intermediate down trend. In August, the market became oversold. It corrected this with eight weeks of horizontal action during which the Wyckoff Wave moved across the down trend channel and then broke through the supply line on increased volume. At the time in early October, this looked quite positive. Unfortunately, the market could not hold its positive accomplishment. In the past few weeks, the Wyckoff Wave has backed up into the previous down trend channel. This past week it tried to break out again and failed. It should try again, however.

The reason for believing that another upside effort is coming begins with the action of last Monday. On this day, the Wave penetrated two previously defined support levels. This put it in a spring position to which there was an immediate, although rather insignificant, positive response. As of the end of the week, a test of the spring had begun. Three factors suggest that it will be successful. One is the absence of increased volume. Another is the movement toward an oversold reading on the Technometer. The third is a minor divergence between the Wyckoff Wave and O.P. Index.

The most positive view of the market can be found on the short term. The intraday chart shows a well defined down trend channel beginning with the recent top at 4000. The second point for defining this trend is the rally to 3930 about two weeks ago. This is also a count level on the five point chart, which indicates that the downside objective has been met. It was reached during the development of an oversold position last Monday, which can be considered the climax of the reaction. The automatic rally ended on Tuesday. Since then the market has been leisurely making its secondary test of the climax. Notice that at this point there is a positive divergence and an indication from the five point chart that the secondary test is almost complete. Therefore, short term traders should be looking for an opportunity to buy in the days immediately ahead.

GROUP ANALYSIS

The aerospace group continues to follow its recent pattern of paralleling the action of the Wyckoff Wave. It is perhaps a bit weaker than the Wave when viewed over the short term. This conclusion is based on the poor quality of the effort to break the supply line and the decline back into the down trend channel. The figure chart indicates this decline could carry the index as low as 6300, which would put it in a spring position. For now, the group should be played on the short side with the next opportunity coming if and when a spring position develops.

An uptrend is underway in the airline group, but it is of questionable quality. Thus far it has been unable to do more than recover half of the previous decline. This is normal down trend action. The volume on the rally has declined as the halfway point has been approached. This makes additional gains questionable. Anyone playing the long side of this group for the short term should consider taking profits. Given another rally that is stopped at or near the halfway point, intermediate investors may consider new or increased short positions.

The auto group, which has been one of the leaders of the bull market is now in trouble. On October 17, it went into an upthrust position. This was tested last Tuesday on lower volume. Since then, there has been a sharp downward break in price on sustained volume. The index is now in a short term oversold position. This suggests another rally attempt in the near future, but be careful. If volume decreases and price progress on the upside is sluggish the move will be nothing more than a more important test of the upthrust and a short selling opportunity.

After breaking one short term down trend and spending several months in a trading range, the banking group has resumed downside progress. It is now possible to define a longer term down trend channel. The downside objective could be as low as 2325. The present position in the trend words against new short positions. These should come on low volume rallies toward the top of the trend channel.

The building materials group completed the correction of an oversold position several weeks ago and has since resumed downside progress in the previously defined down trend channel. New short positions are unwise at the moment due to the position in the down trend. Watch for new opportunities on the short side during rallies to the supply line.

The chemical group is one of the more positive looking groups right now. It has made consistent upside progress during the last six months with an especially strong performance during August and September. The index is currently holding more than half of its most recent gain and is in a spring position. This combined with its recent relative strength make the group a good candidate for short term long positions.

Another leader of the bull market that now appears to be in trouble is the computer group. It is in a down trend and has recently experienced a sharp downward break in price on very heavy volume. The index is near one downside objective at the moment and in an oversold position on the down trend. Therefore new short positions at the moment are unwise. However, there is a great deal of additional downside potential available. Therefore, a rally out of the current oversold position especially if it comes on decreasing volume should be used as a short selling opportunity.

The diversified group is of little interest. It has carved out a trading range between 4700 and 5400 and shows no signs of breaking out of it in either direction. Watch for upthrust or spring positions as possible trading opportunities, but for now leave the group alone.

A few weeks ago, the drug group reached an upside objective. Since then the index has drifted back on decreased volume. This is positive and helps neutralize the potentially negative implications of the upthrust position established at the top of the last rally. Assuming that support is found at or above the halfway point on this reaction and the volume remains low, the drug group should be considered as a candidate for the long side as opportunities develop in the general market.

The electronics group has now been in a trading range for three months. It has built up approximately three thousand points worth of potential. This is enough for a fifty percent move. Therefore, the group must be watched closely. Since it is currently near the bottom of its trading range, a spring position should be anticipated. If it develops, it is suggested that the group be bought with a close stop.

The gold and silver group is badly oversold on one down trend and about to break the supply line of another. This suggests that the worst may be over for a while in this group. However, it remains one of the weakest sectors of the market and should only be considered for short positions.

On October 7th, the insurance group entered an upthrust position. It is now testing that upthrust on relatively low volume. This volume indicates that the test is going to be successful. If it is, the group should be considered for short positions.

The machinery group is a index in search of a direction. In September, there was an upthrust followed by two lower volume tests. This developed a short term downside potential, which has now been used up. On Monday of last week the index entered an oversold position on the short term down trend. It is also in a spring position. Therefore, it must be considered a candidate for the long side. The problem here is that the trading range is too narrow to trade. If a long position is taken, it has to be on the belief that an upside breakout is likely. In view of the condition of the general market, this is highly questionable.

The medical group is in a down trend. It has a downside objective of at least 7275. Therefore, any action on the long side based on the current spring position is unwise. If the index does respond to the spring and the supply line remains intact, short positions may be considered.

Considerable weakness has come into the metals group since mid September. It has given up more than half of its previous gain and is rapidly approaching a major demand line. In view of the present condition of the general market, this line probably will hold. However, additional buying appears unwise. A better course of action appears to be to use the next rally to exit any existing long positions and move the funds to a different sector of the market.

The office equipment group is making a more important test of an earlier spring. The volume is contracting as the index approaches the combined influence of a support level and a demand line. Ability to hold here will indicate a successful test and a buying opportunity. However, the other relatively strong groups already mentioned appear to offer better opportunities.

The oil equipment group has recently broken a short term down trend and is now in a trading range. It is also on the verge of going into a spring position. However, there is only a small amount of upside potential in place. Therefore, better opportunities for long positions can be found elsewhere. It should be noted that the amount of upside potential that now exists will not push the index to a new high. This is a negative indication. Those who are currently long in this group should consider taking profits on the next rally.

The oil group as usual is similar to the oil equipment group. The differences are that the index has further to go to enter a spring position and the group is the stronger of the two. It does not have enough potential to make a new high. Therefore, the next rally in this group should also be used to close out any remaining long positions.

The strongest group of all, the semiconductor group is now in a down trend after having penetrated a very important demand line. This is an important change of character that should be noted by anyone who is long in this group. As of Friday, the index was in an oversold position. Therefore, a corrective rally is in order. However, it should not be bought. Instead, it should be used to eliminate long positions.

SMI **INDEX CHARTS**

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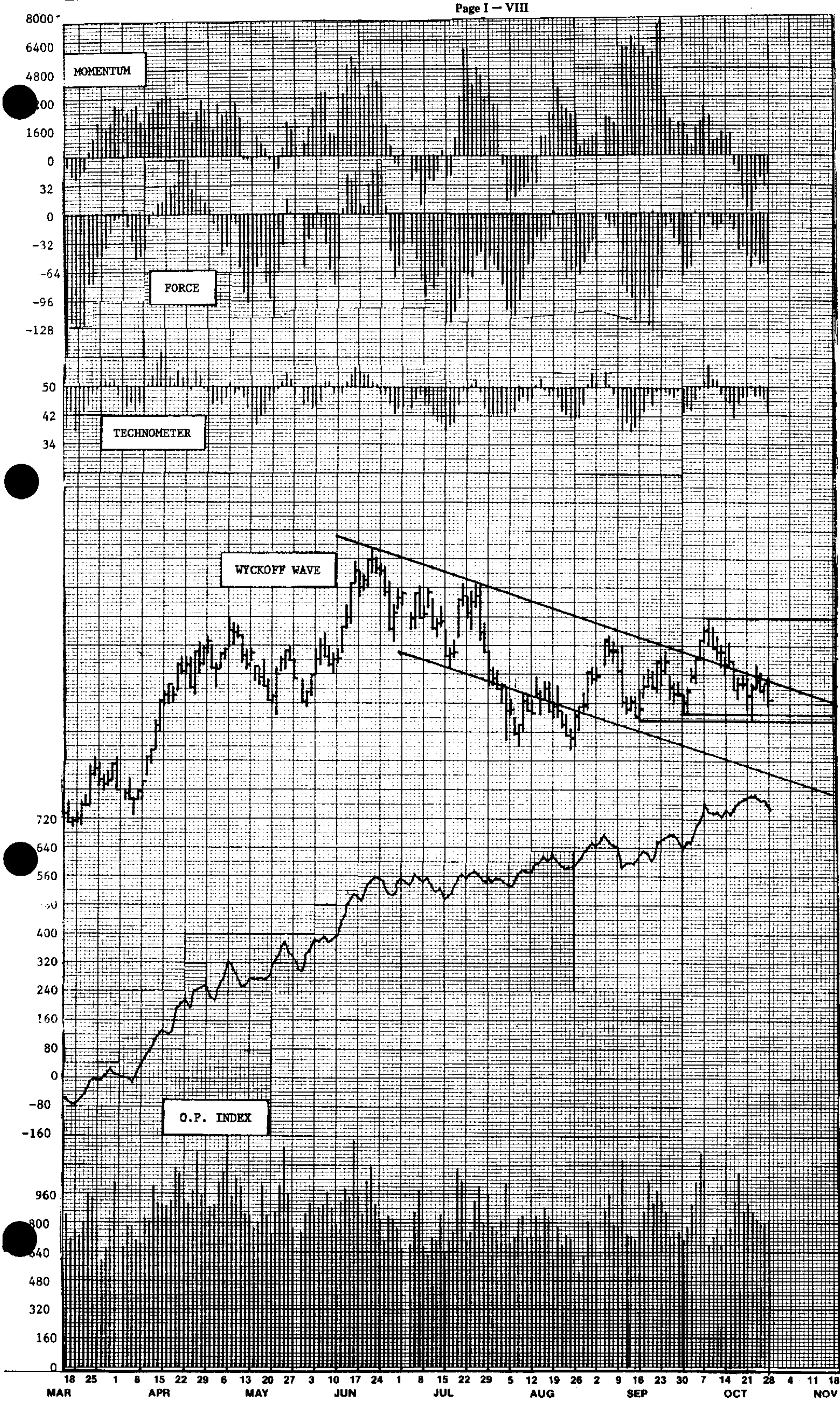

SMI **INDEX CHARTS**

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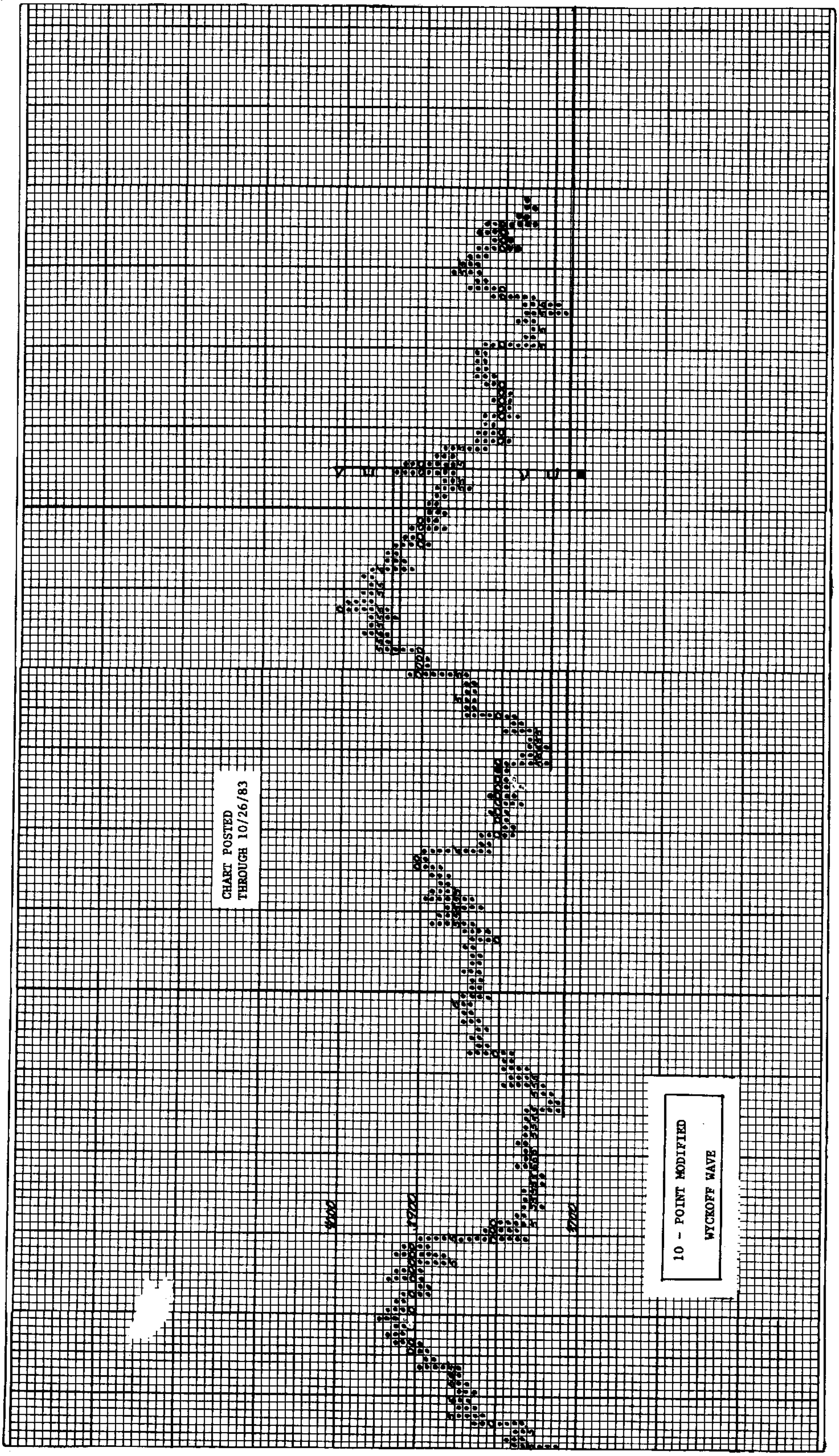

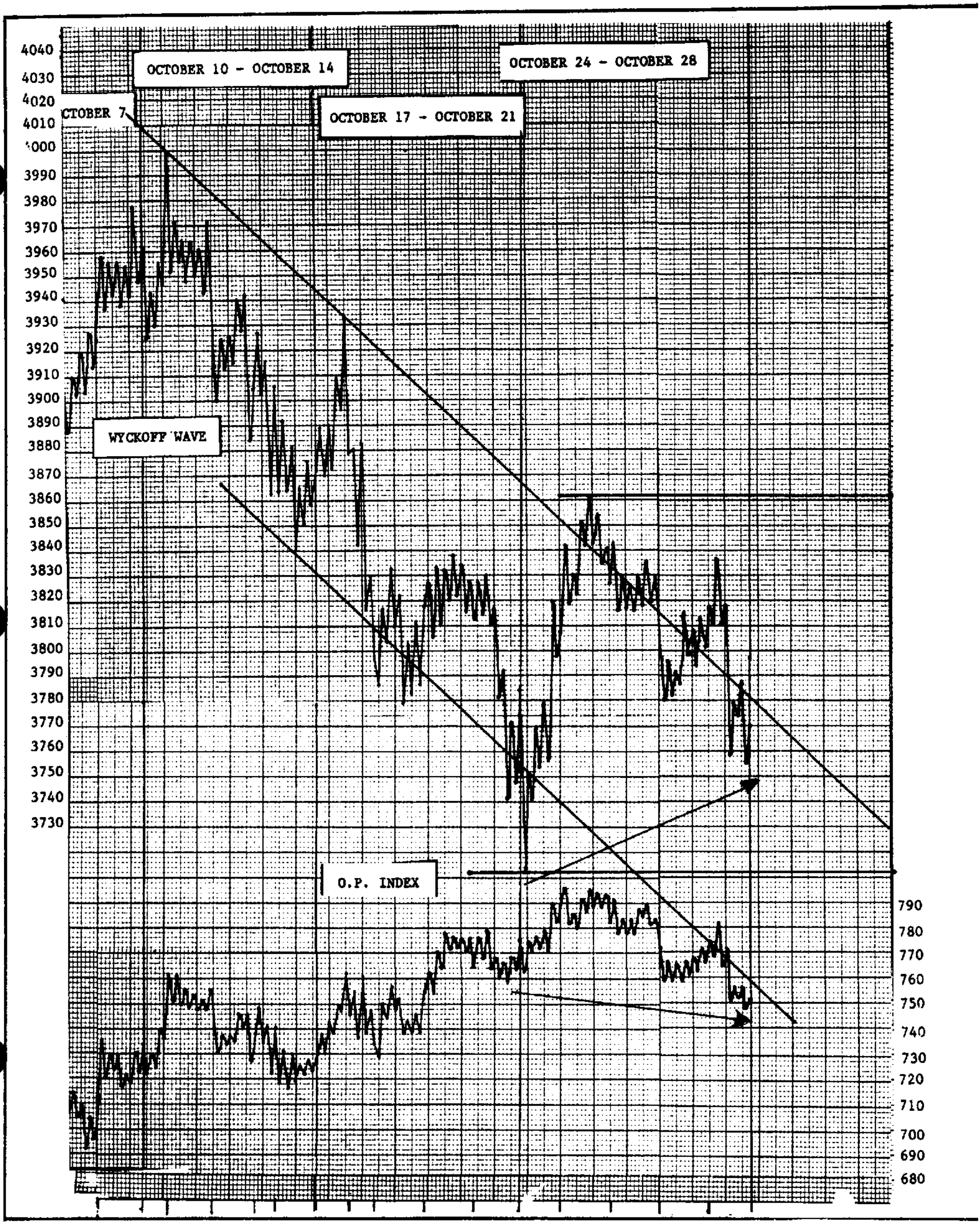

OCTOBER 7
OCTOBER 10 - OCTOBER 14
OCTOBER 17 - OCTOBER 21
OCTOBER 24 - OCTOBER 28
WYCKOFF WAVE
O.P. INDEX
4040
4030
4020
4010
3990
3980
3970
3960
3950
3940
3930
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3910
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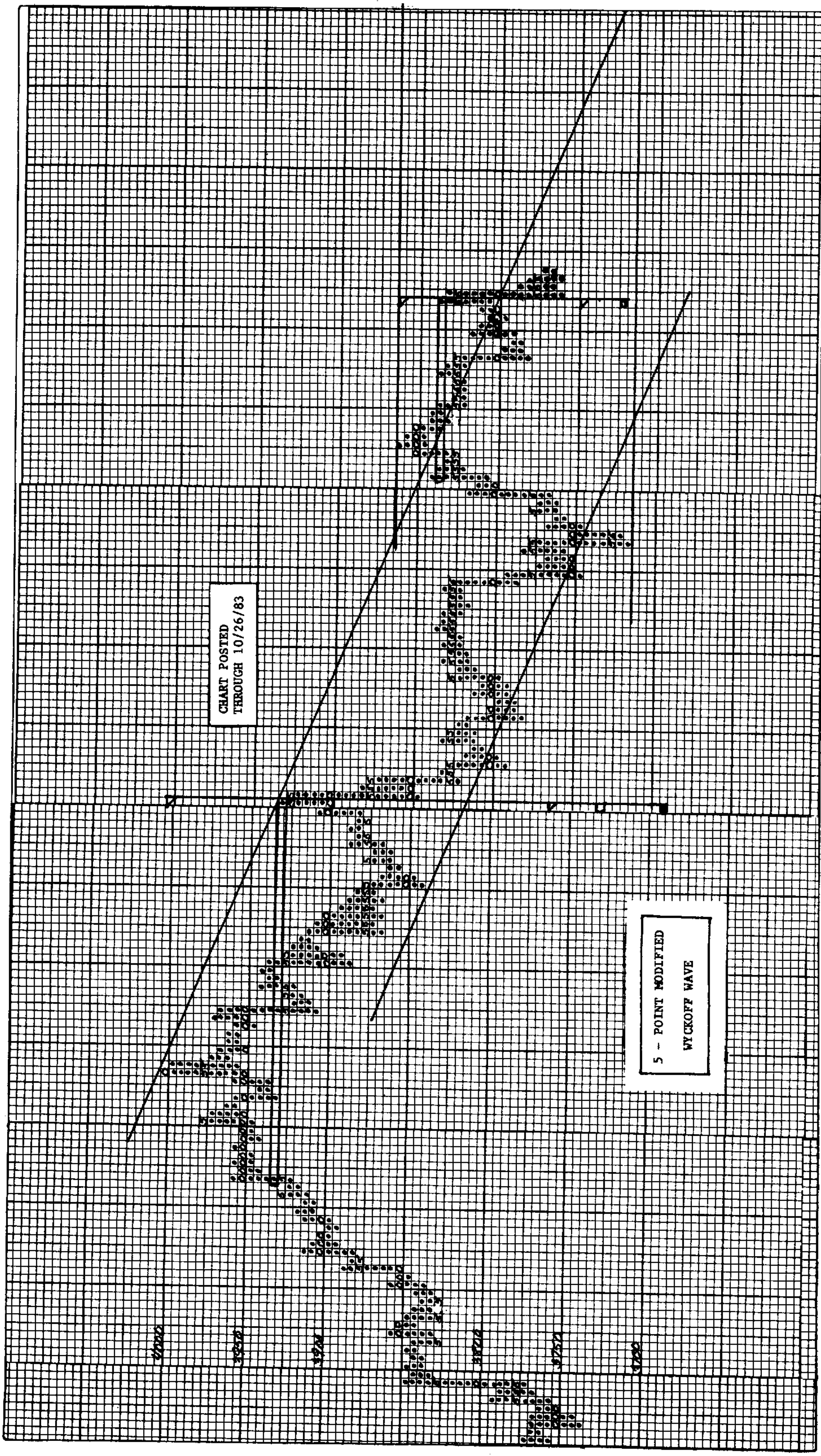
CHART POSTED
THROUGH 10/26/83
5 - POINT MODIFIED
WYCKOFF WAVE

INDEX CHARTS

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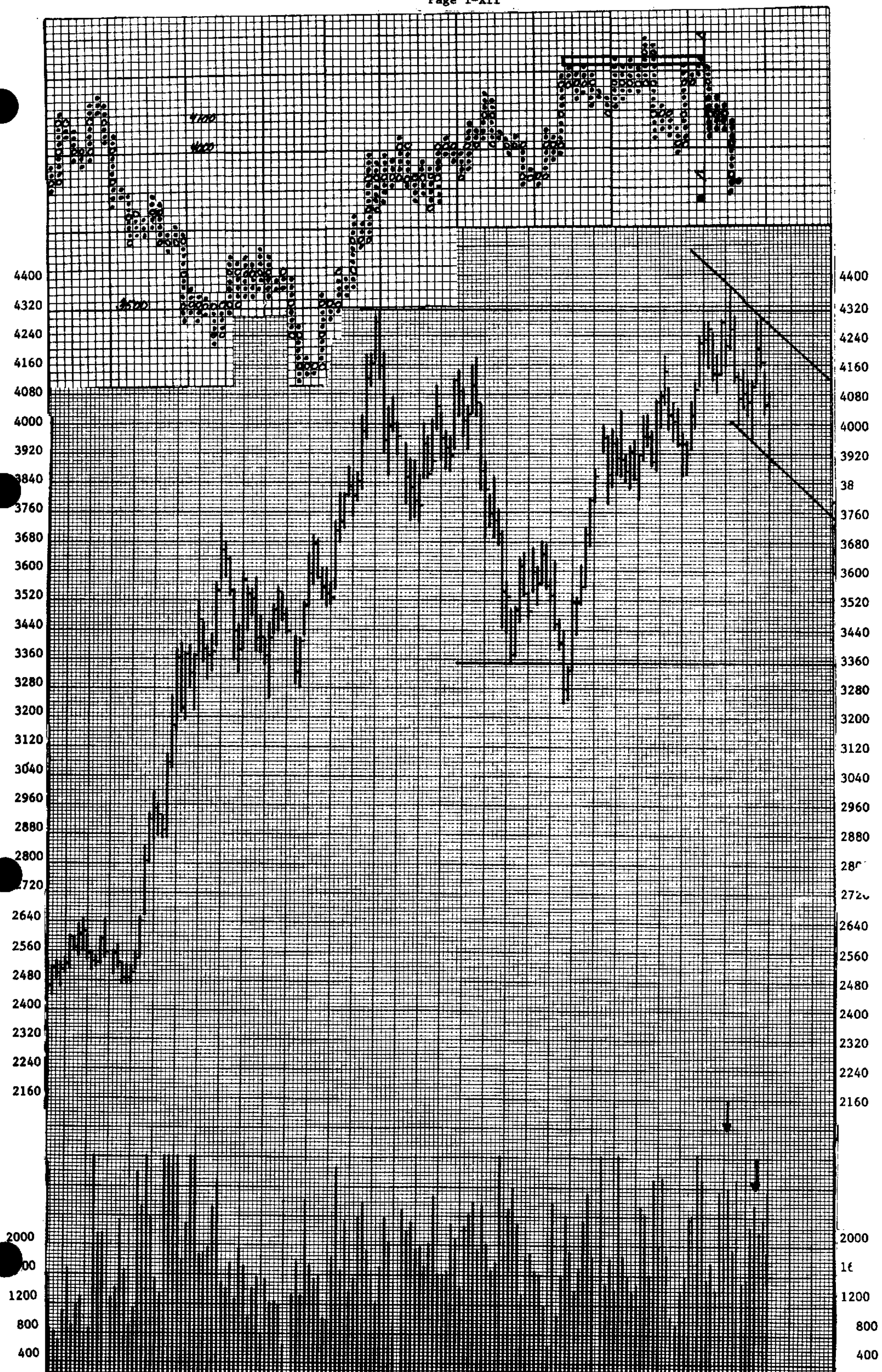
AUTO GROUP
6(11C+3F+2GM)

Page I-XII



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BANKING GROUP
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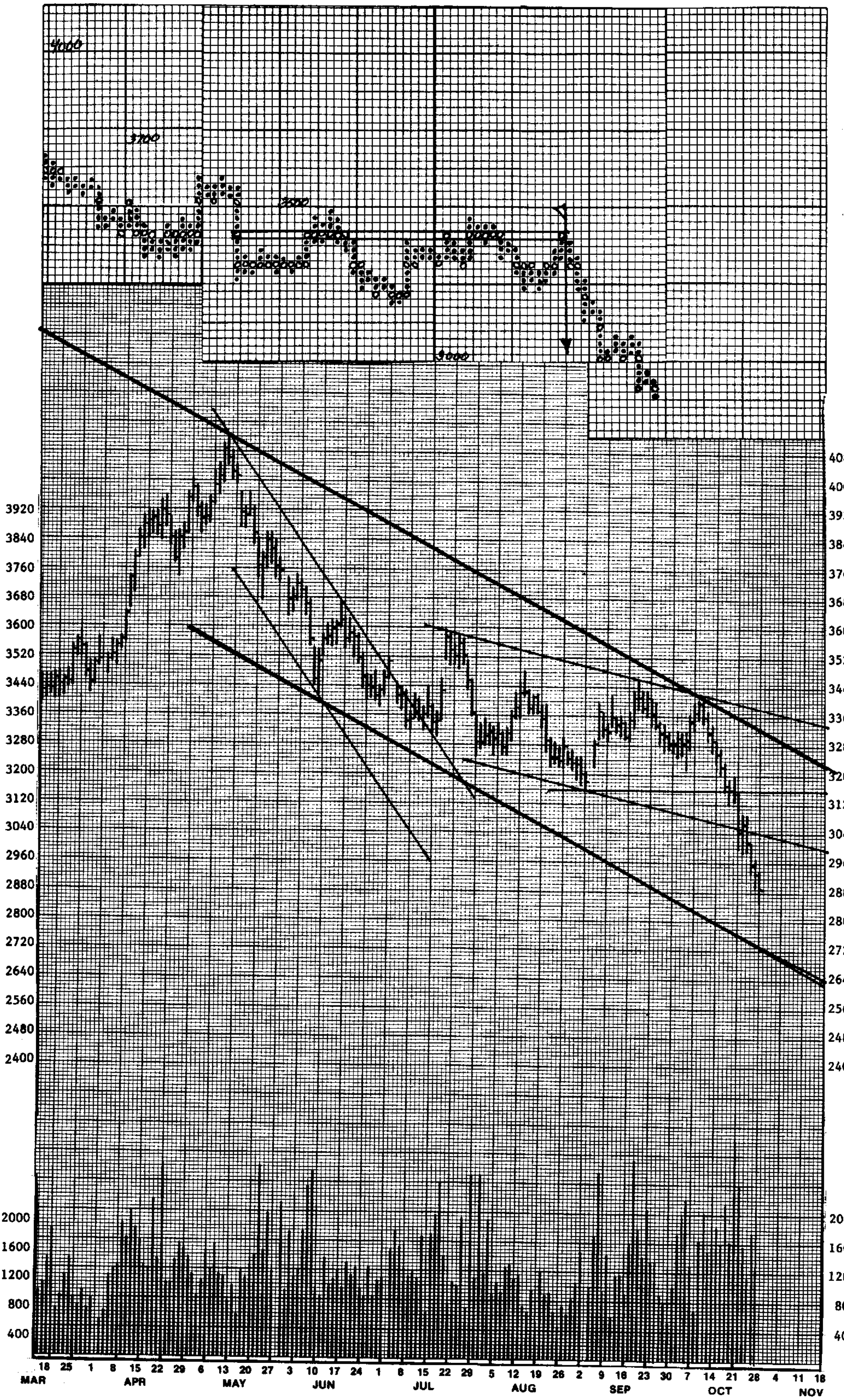

Oct 1983

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AEROSPACE GROUP

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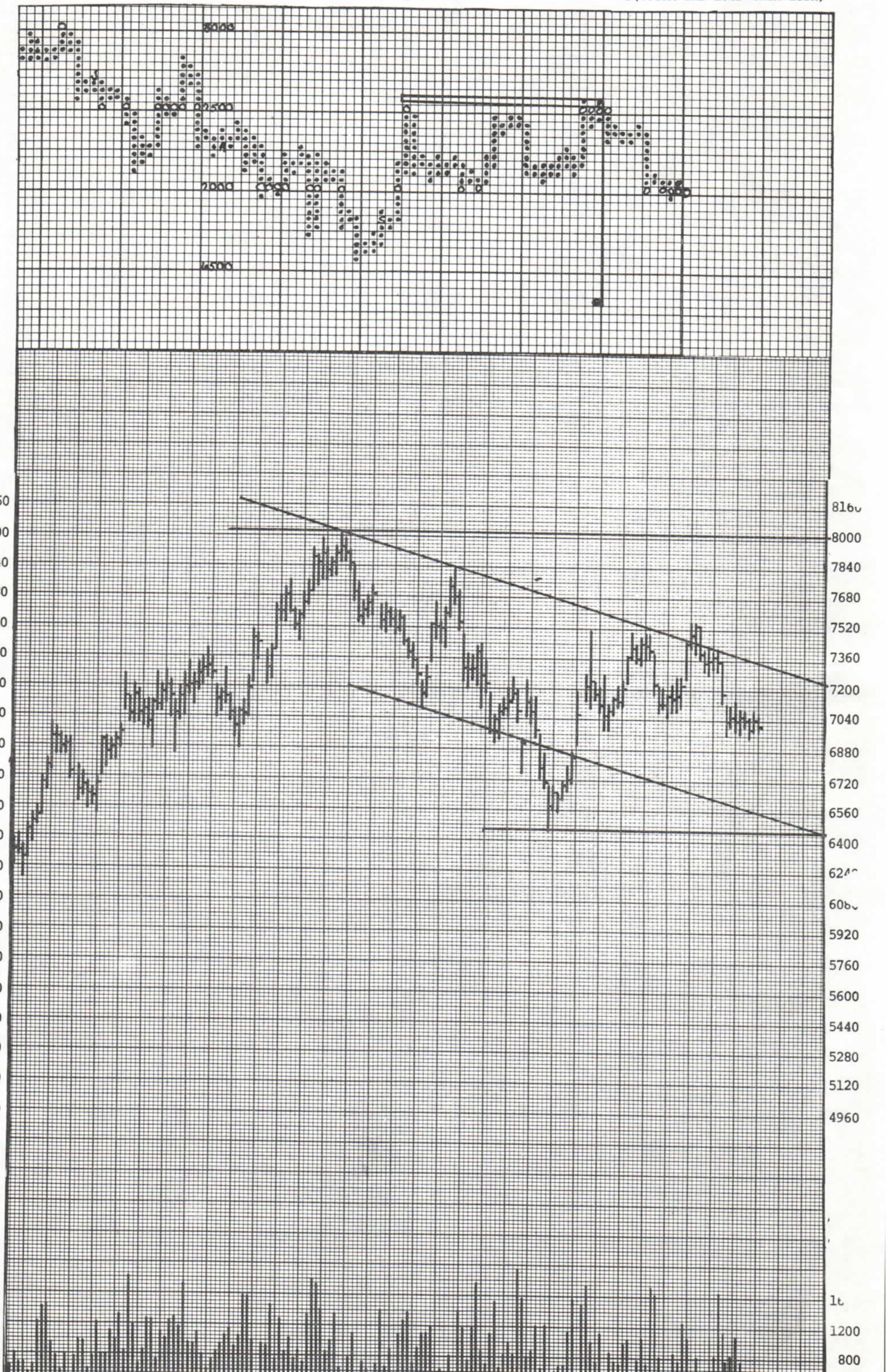

INDEX CHARTS

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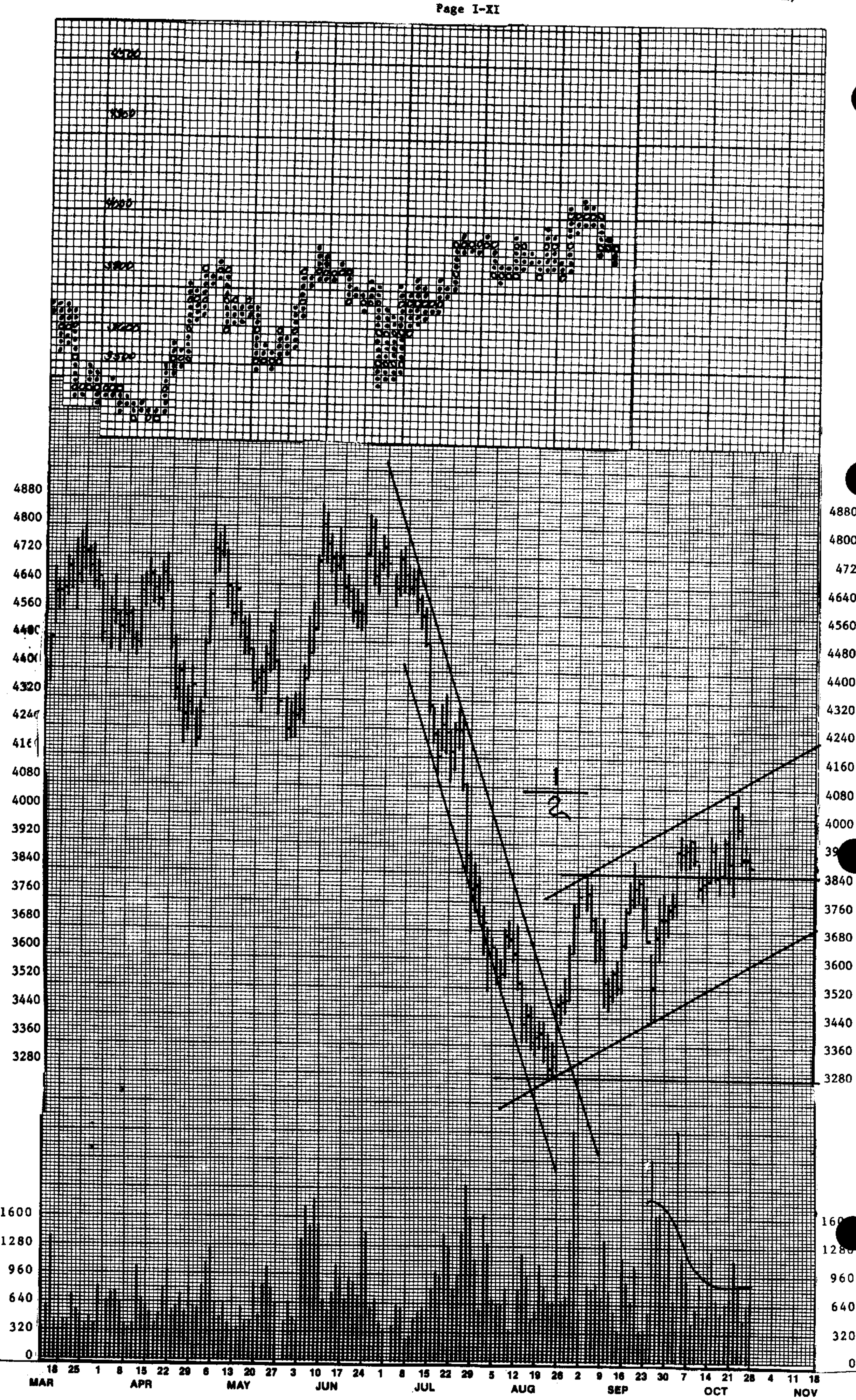
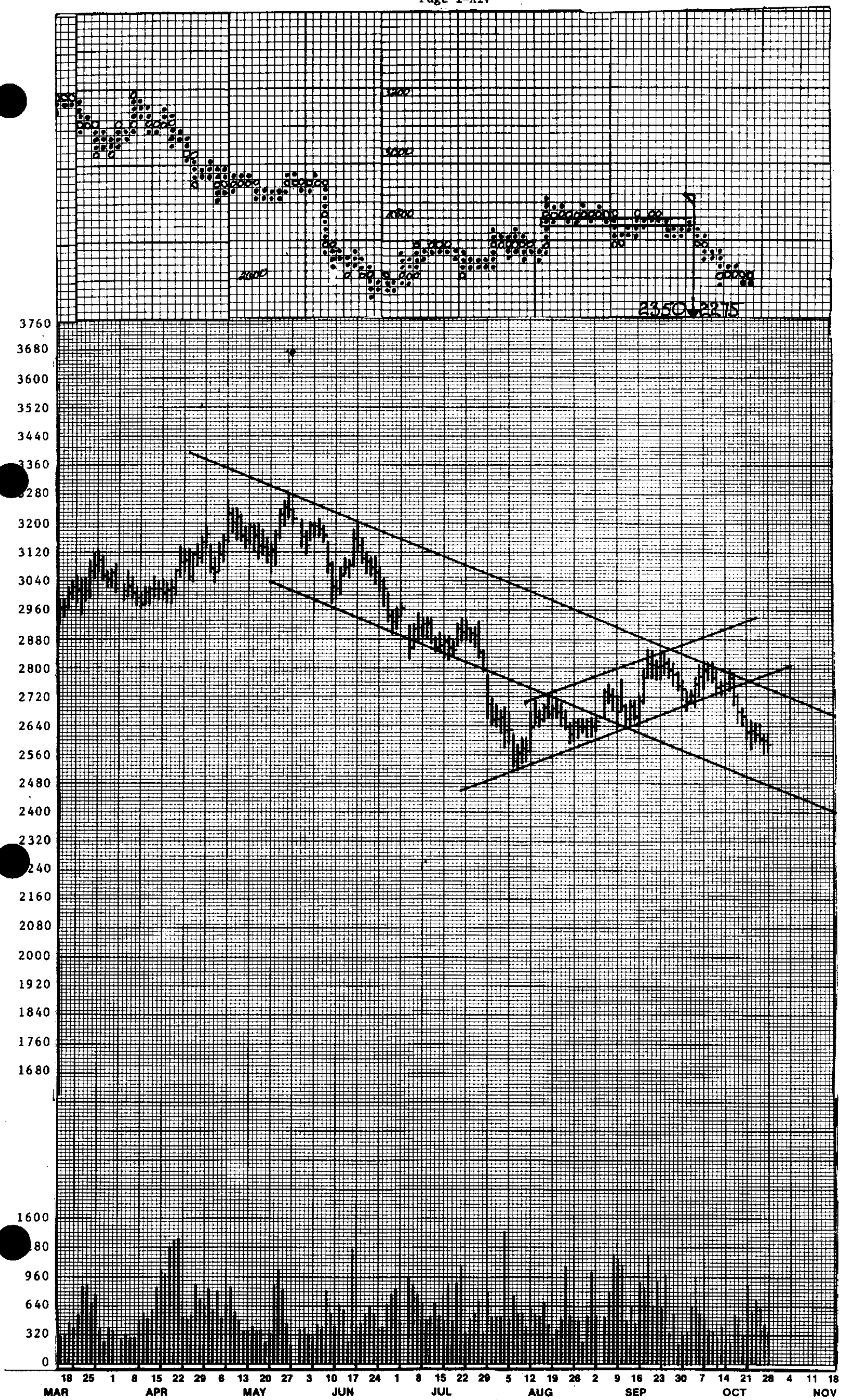
AIRLINE GROUP
6(7TW+2PSA+4DAL+3NWA+4UAL)



BUILDING MATERIALS GROUP
7(2GP+2BCC+2JWC+3.5PL+3WY)



INDEX CHARTS

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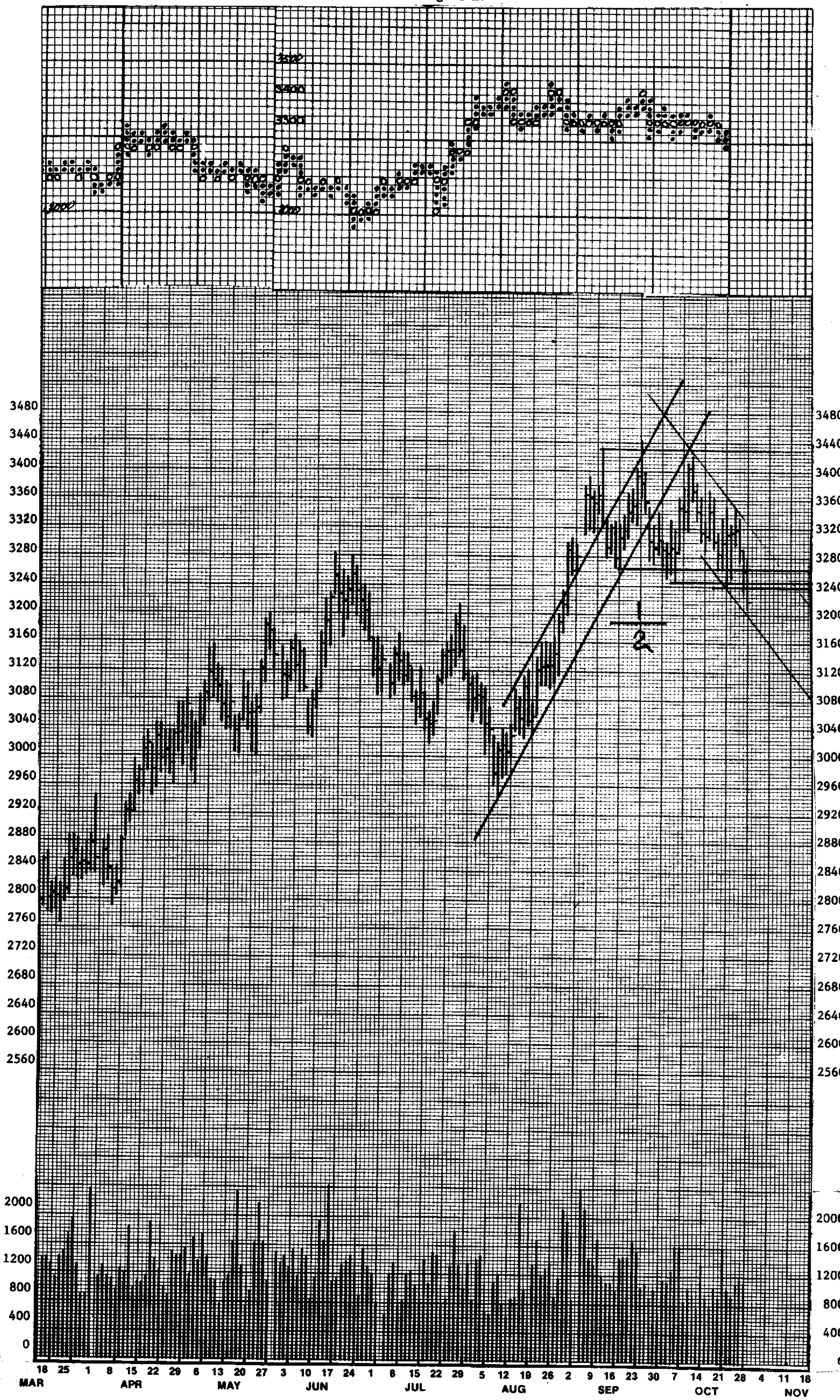
CHEMICAL GROUP
2(6ALD+9DOW+6DD+6PG+5UK)



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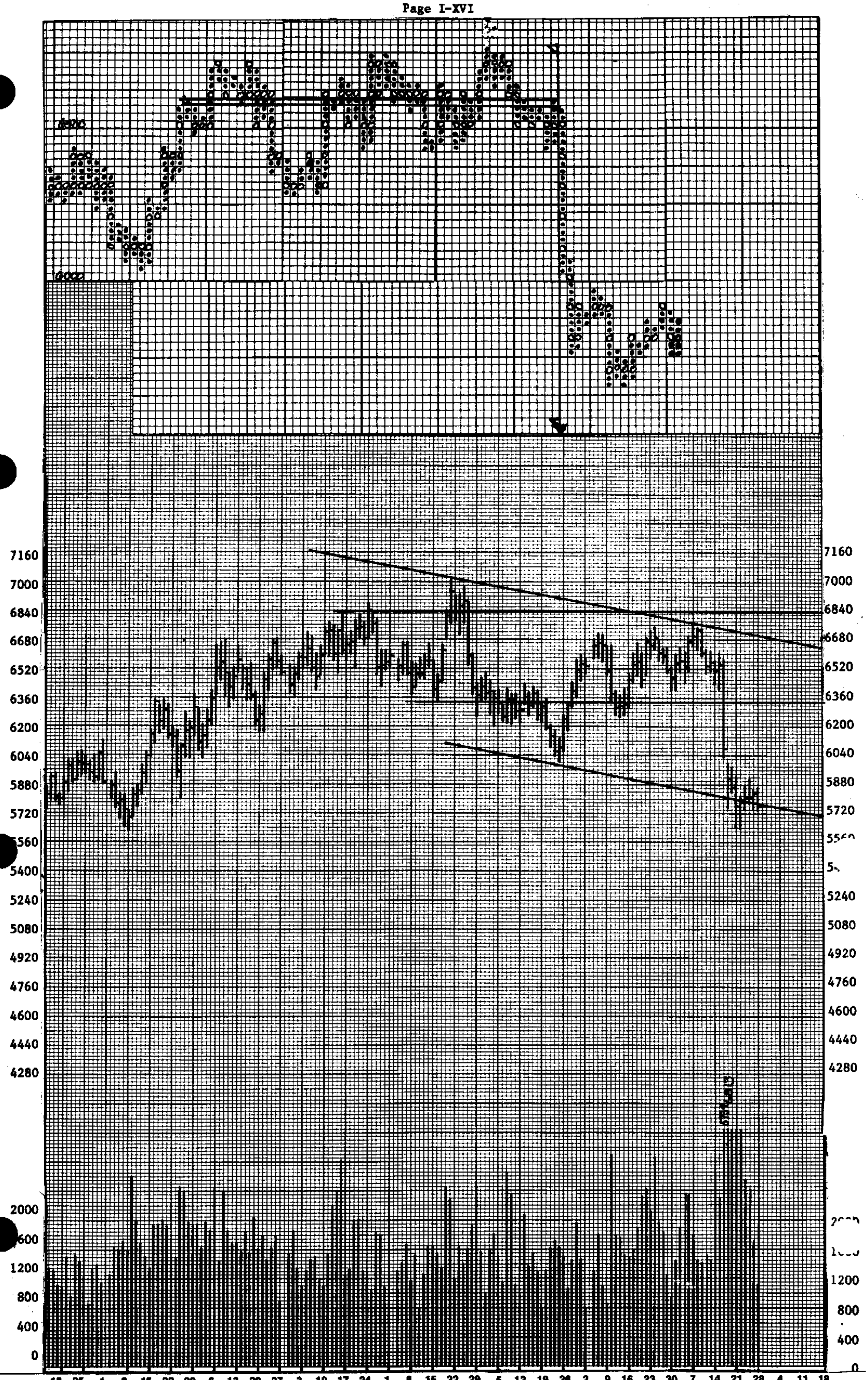
COMPUTER GROUP
1(40CDA+11DGN+12DEC+11HON+8IBM)



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DIVERSIFIED GROUP
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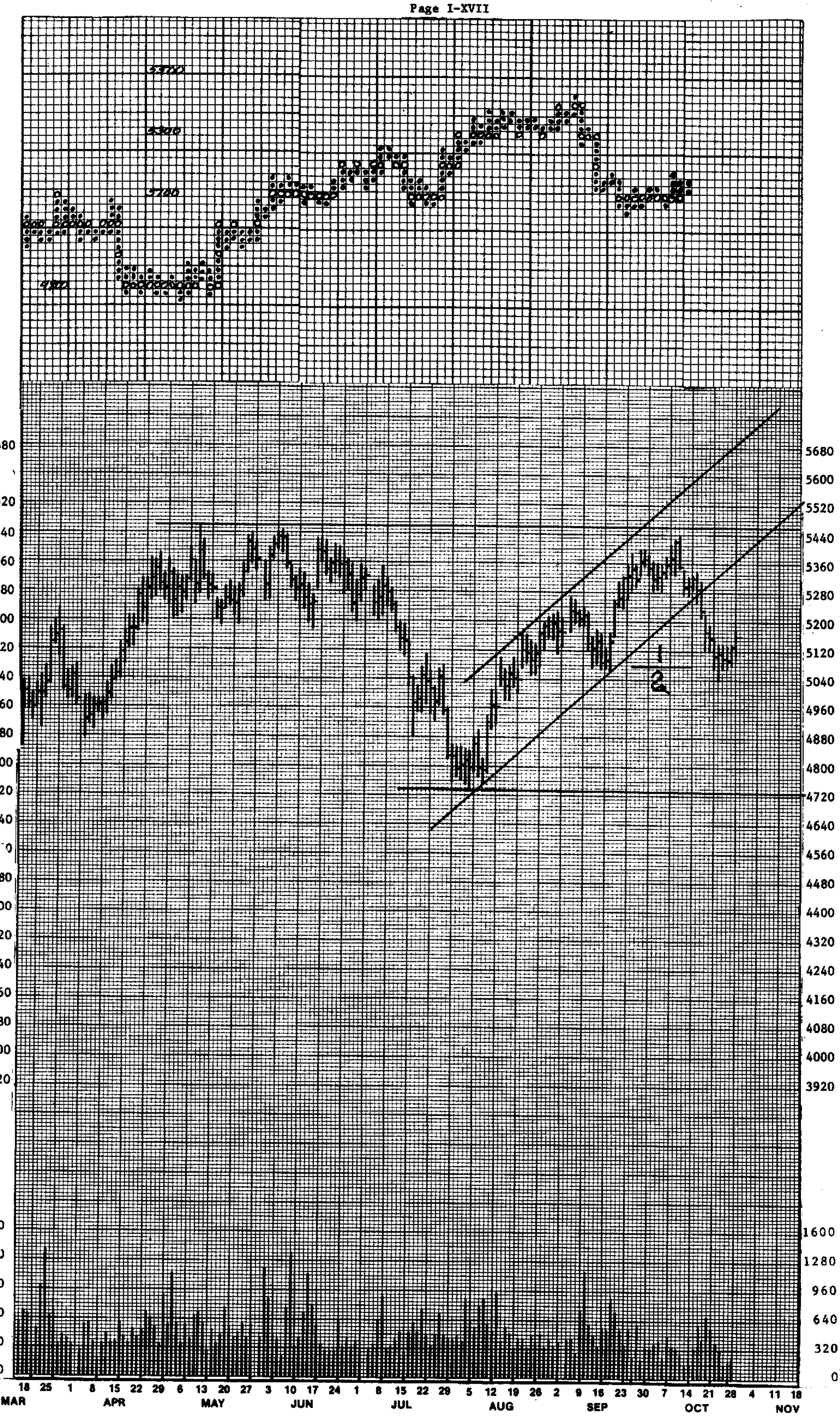

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DRUG GROUP
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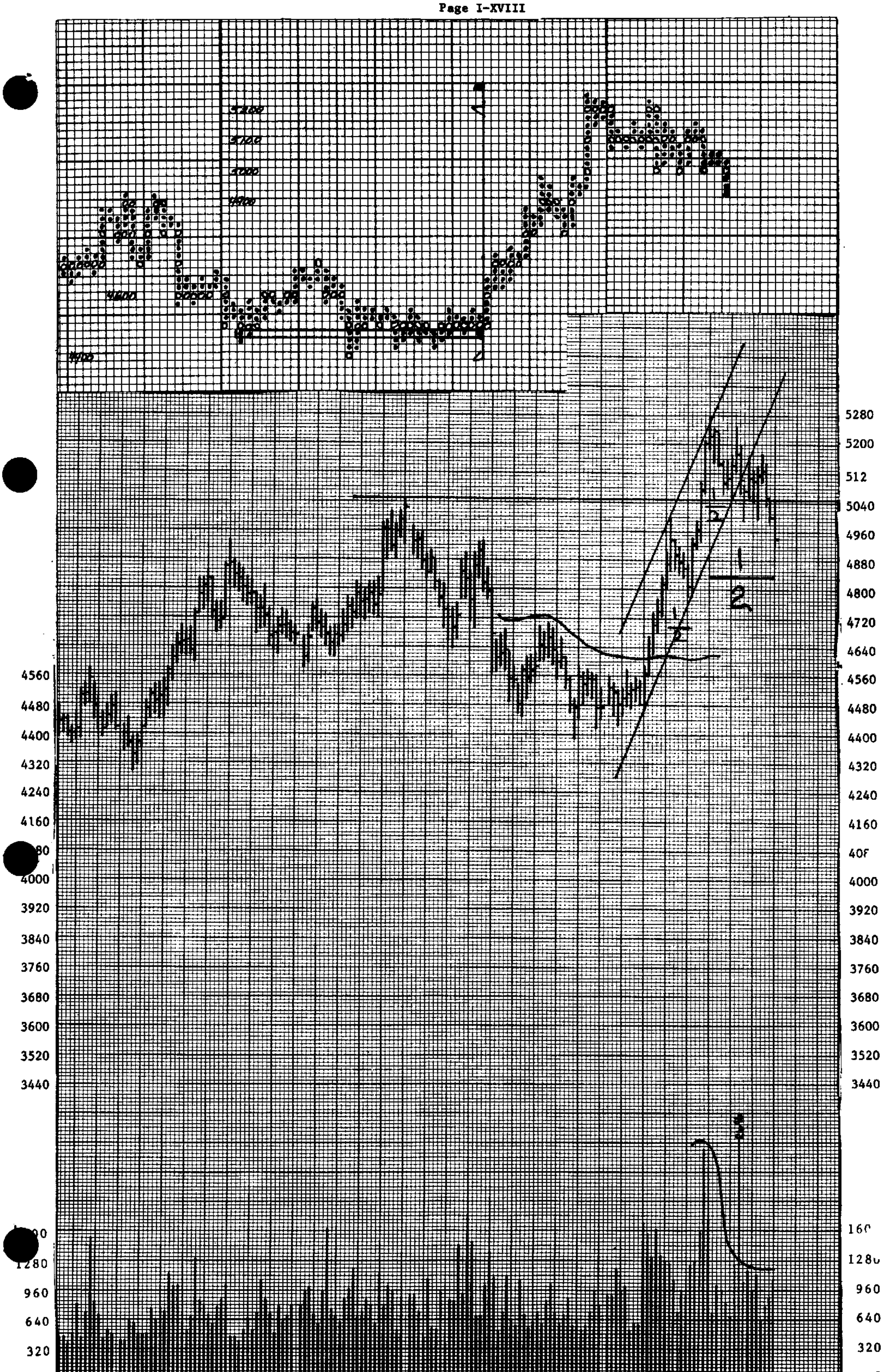

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ELECTRONIC GROUP
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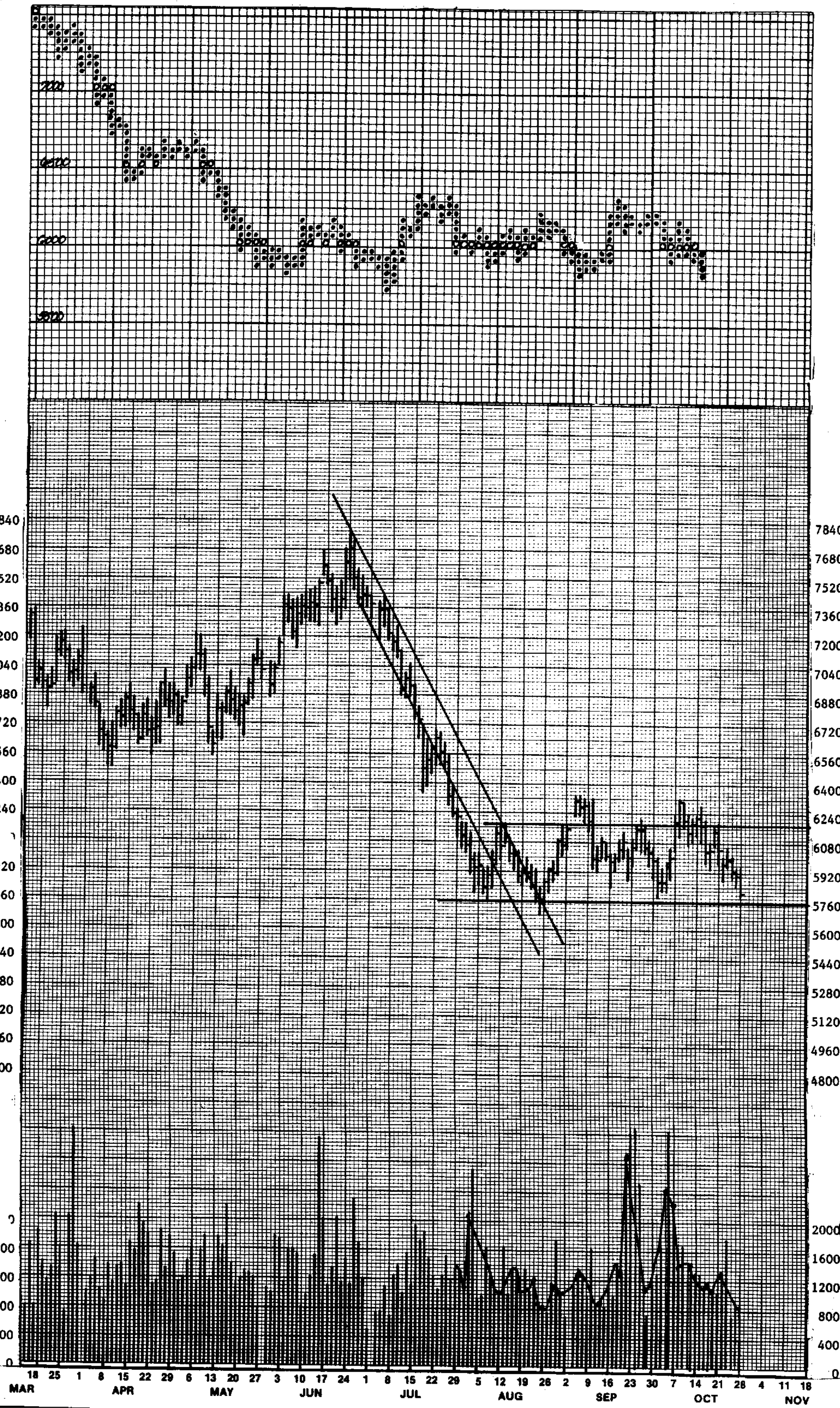

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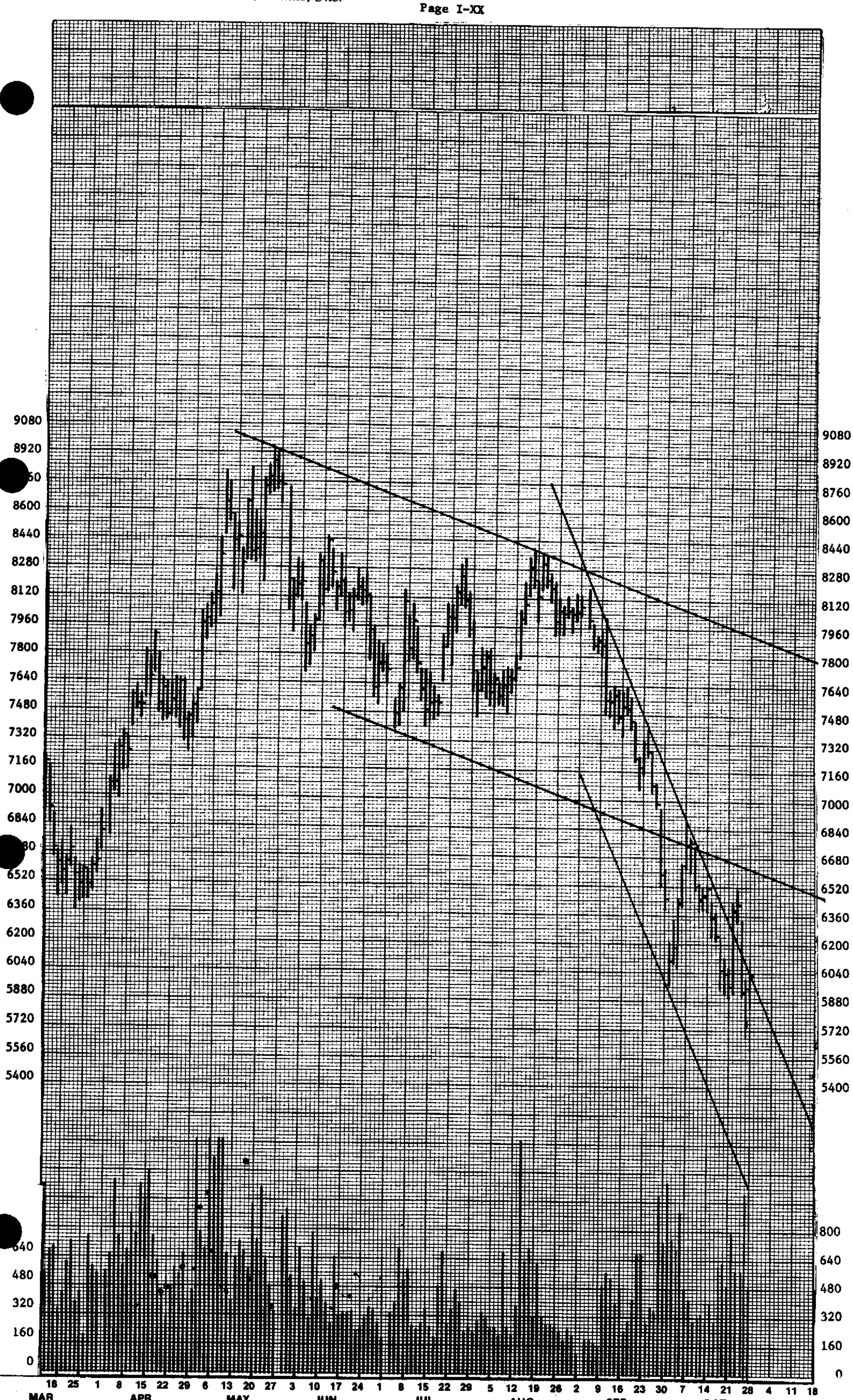
GOLD & SILVER GROUP
3(6ASA+24CRK+24DM+8HM+36HL)



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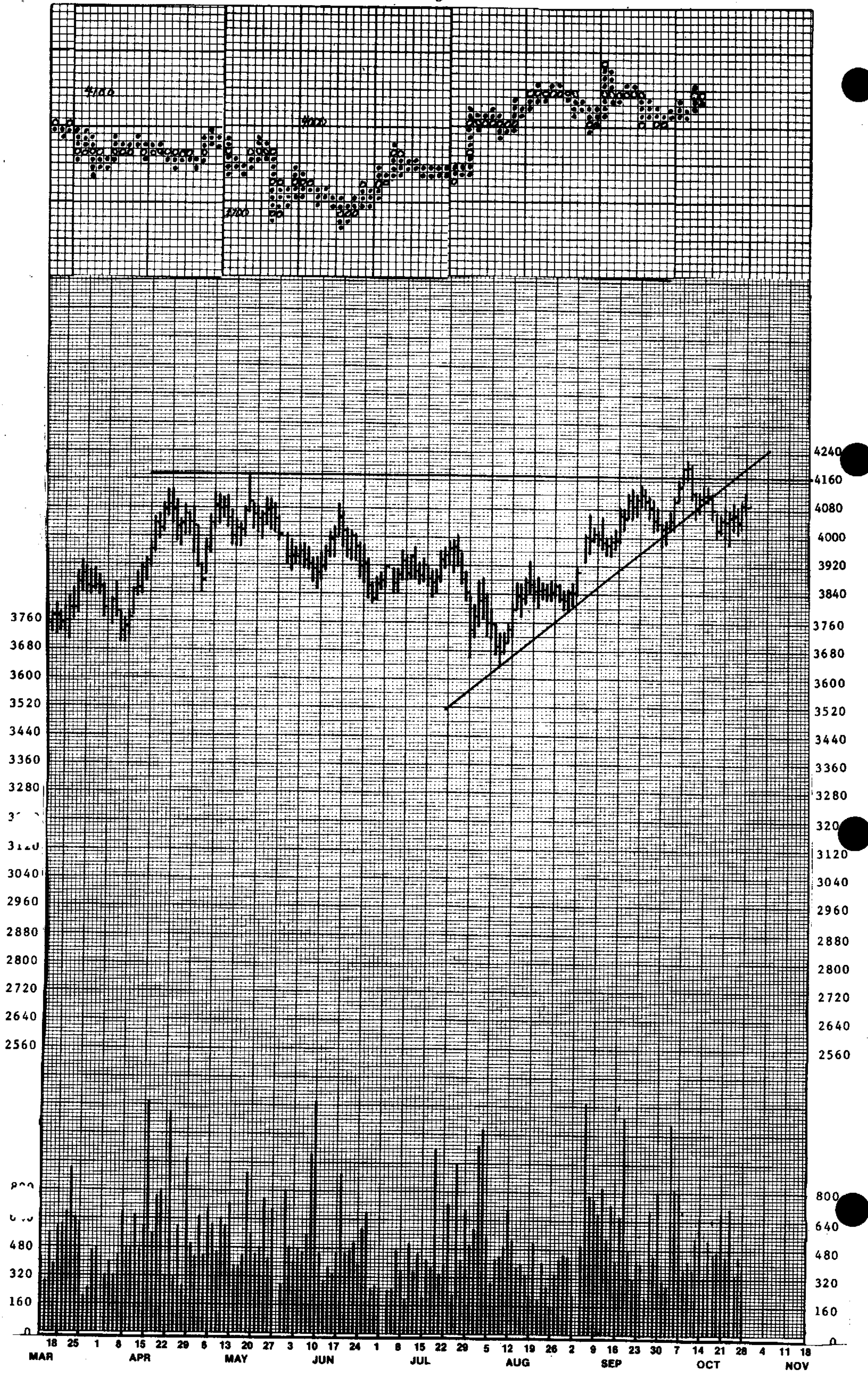
INSURANCE GROUP
4(4.5AET+4.5FG+3LNC+4MMC+8TIC)



INDEX CHARTS

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MACHINERY GROUP
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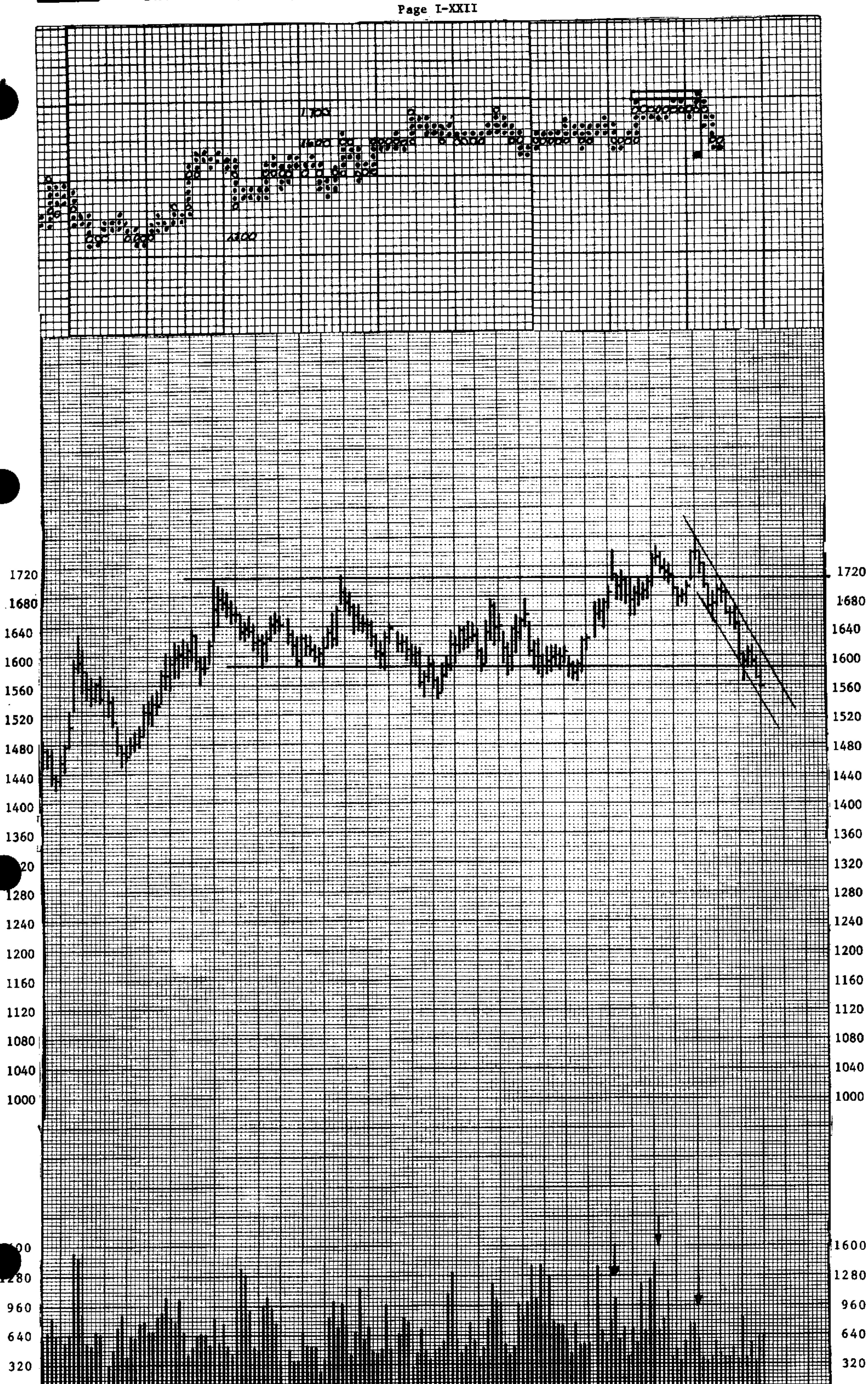

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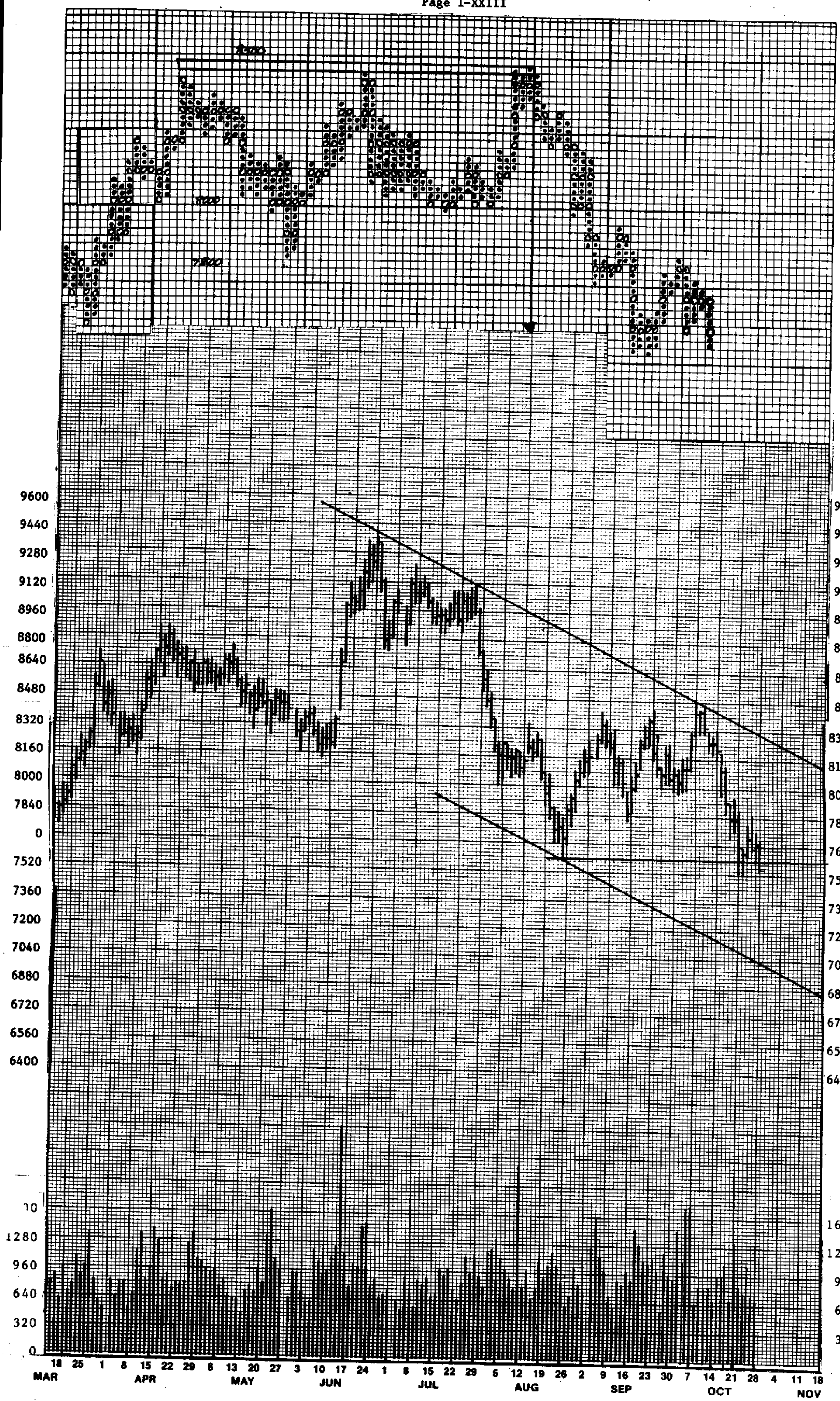

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METALS GROUP
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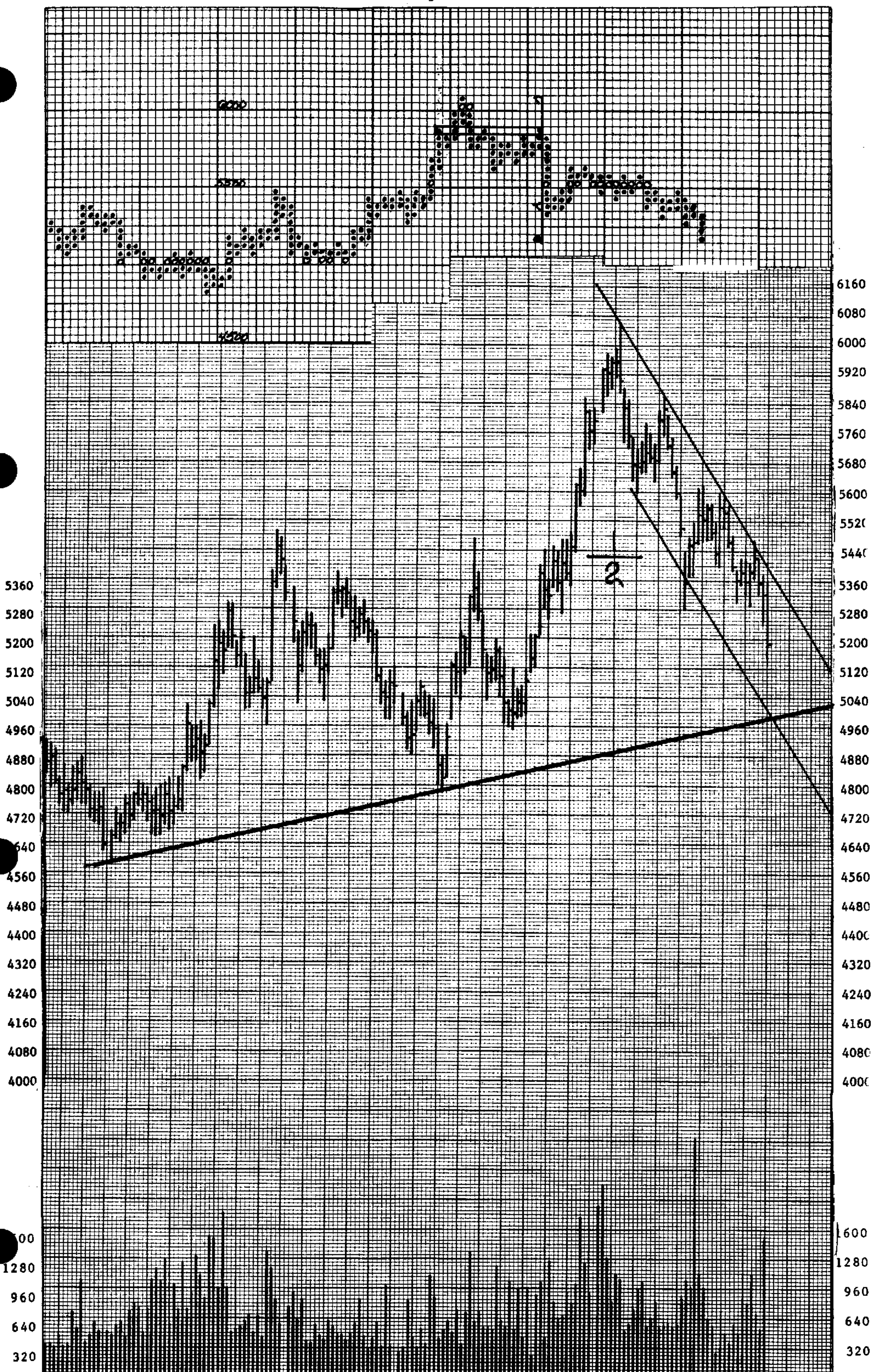

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INDEX CHARTS
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OFFICE EQUIPMENT GROUP
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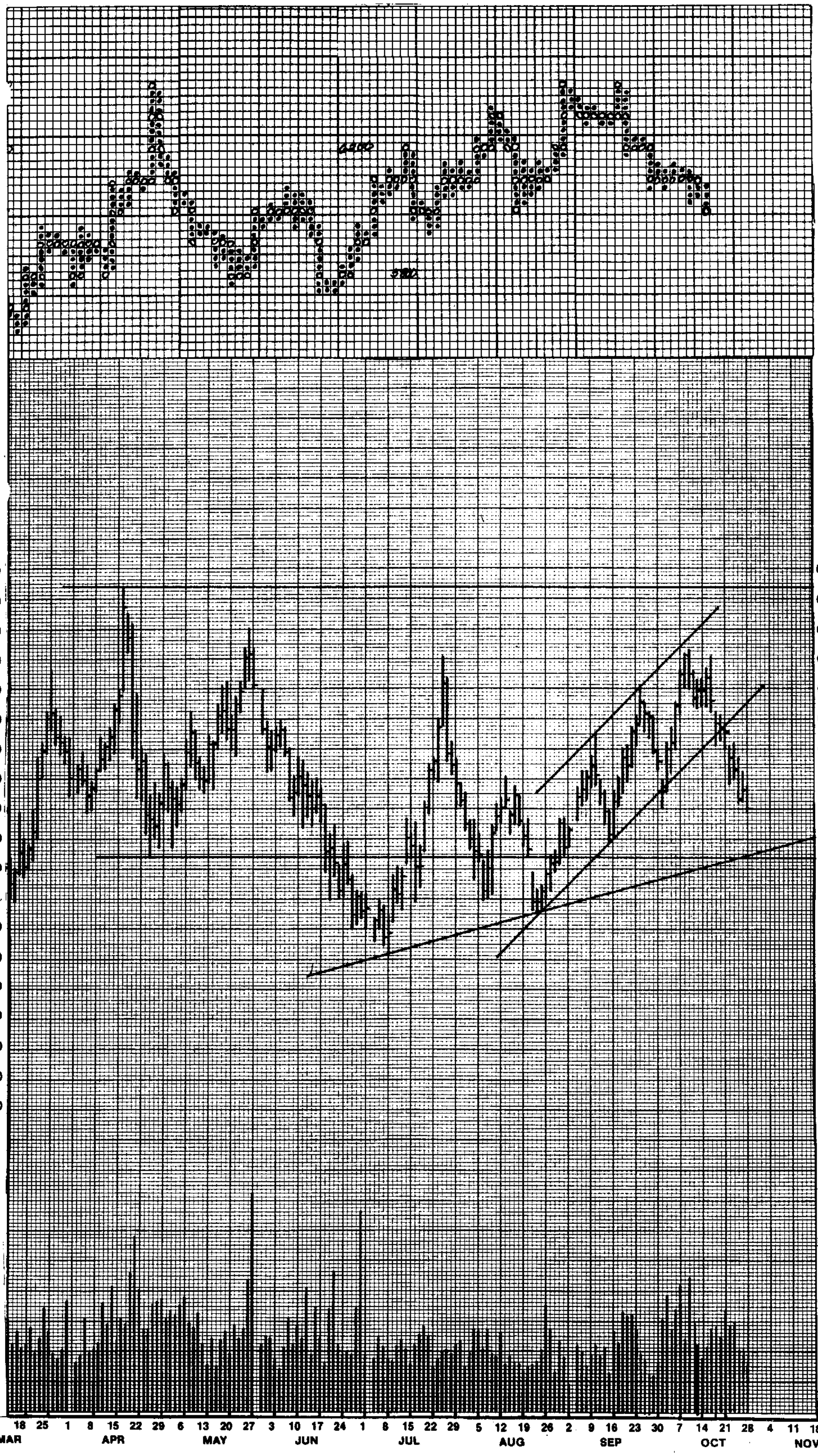

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OIL EXPLORATION GROUP ·
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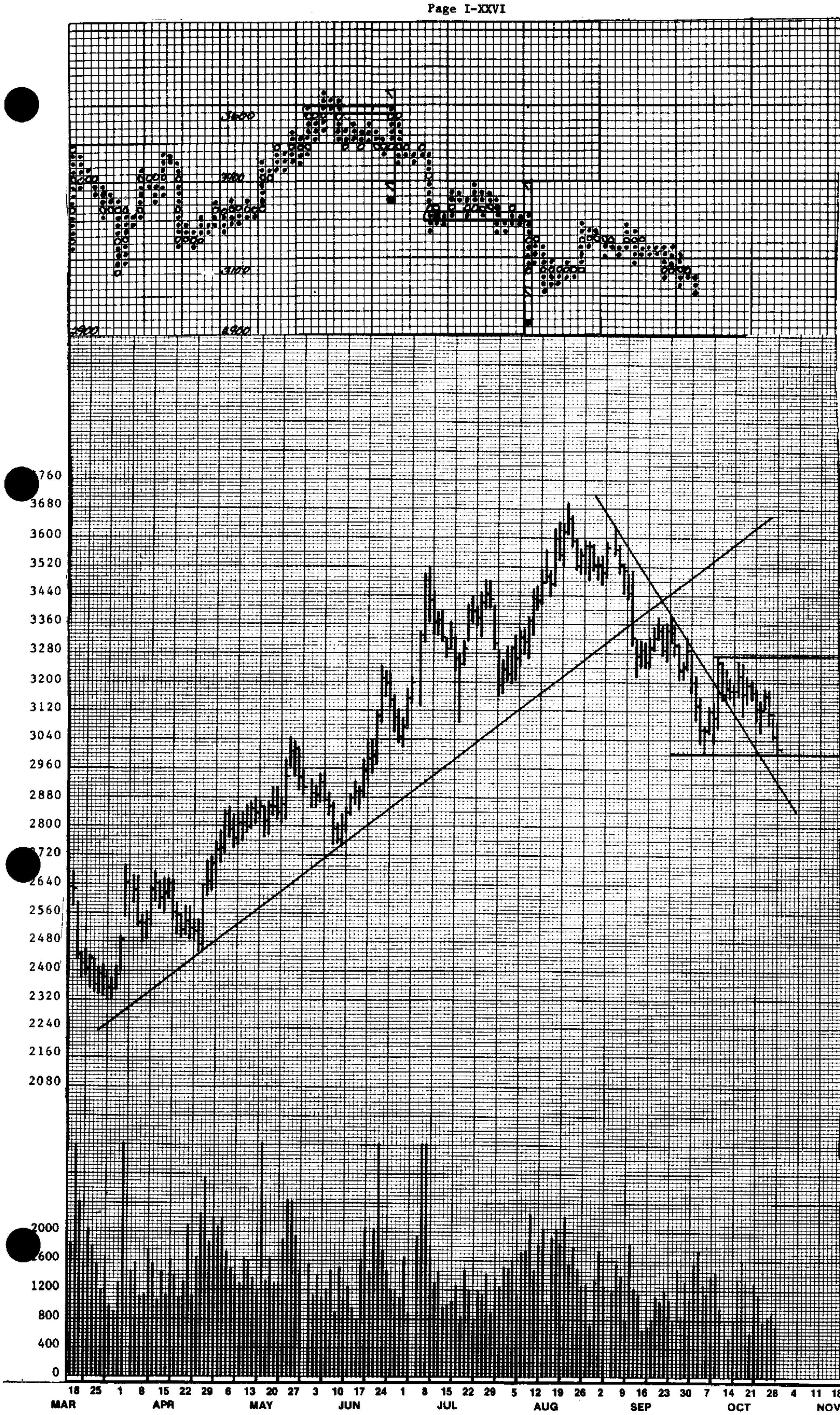

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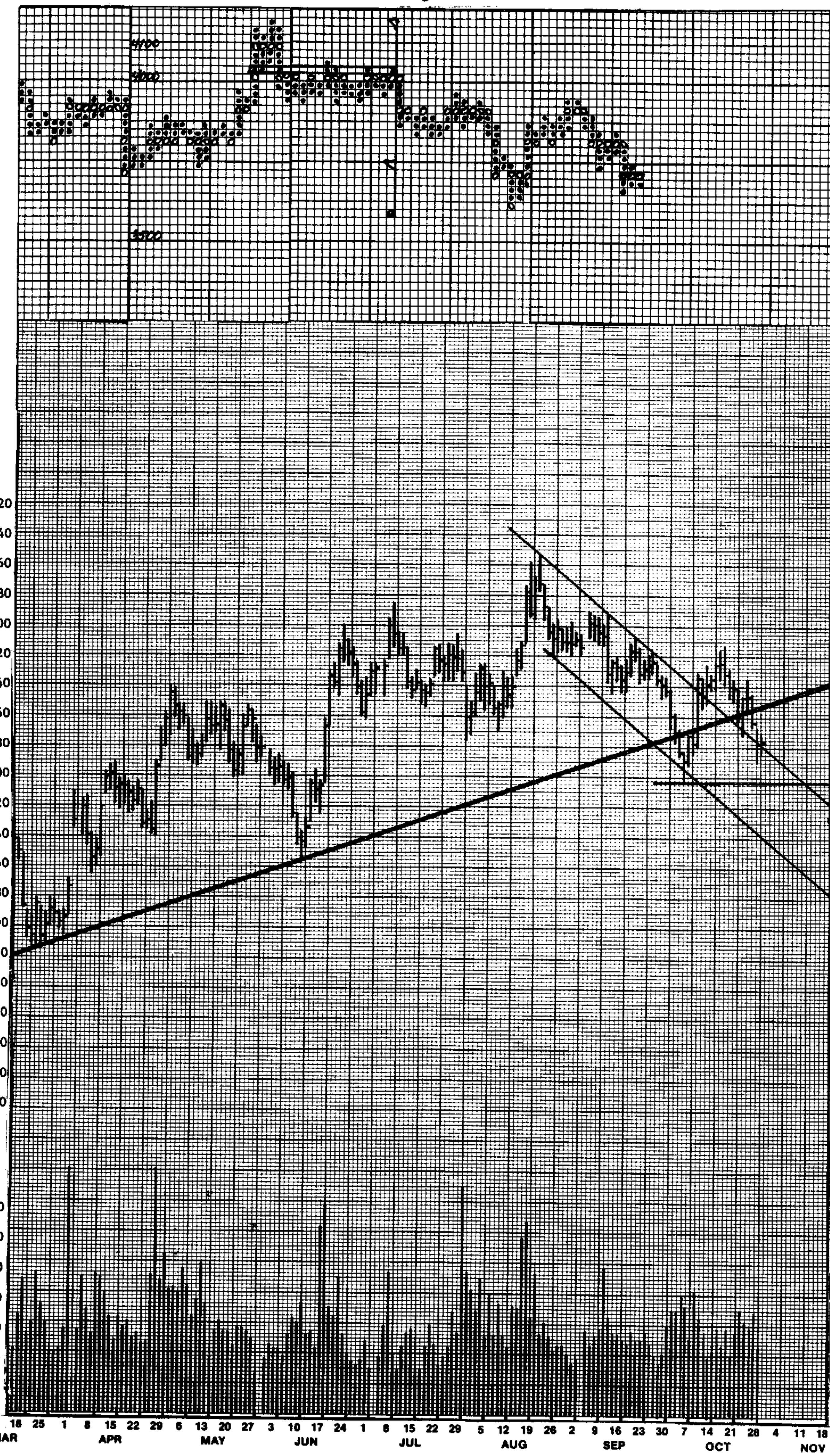
OIL GROUP
3(6ARC+6XON+8MOB+6SD+6SN)



INDEX CHARTS

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SEMI-CONDUCTOR GROUP
3(21AMD+4MOT+12NSM+2TXN+48UTR)