

STOCK MARKET INSTITUTE

Founded in 1931

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TRENDS AND TRADING RANGES

Thursday, September 29, 1983

There are a handful of character faults that tend to do more damage to more traders and investors than even a lack of knowledge. Two of these are fear and greed. A third is impatience. Sometimes the market is not in a hurry to make up its mind. This appears to be one of those times. We can respond by impatiently trying an assortment of questionable actions, or we can sit back and wait patiently for the market to reveal its intentions. Waiting is difficult, but while we wait the market builds potential. Therefore, the wait is usually worthwhile.

The long term trend of the market is still neutral. The Wyckoff Wave sprang the bottom of its trading range about a month ago in an effort to get something going on the upside. The initial positive response to the spring, which made up a little more than half the prior decline, did not bring out an increase in volume. When this happens, a test is virtually inevitable. Two weeks ago the test occurred. It supported at a higher level, but came on higher volume than the spring itself. This makes it of questionable quality and strongly points to the likelihood of an additional test. The quality of this second test will reveal whether or not an important buying opportunity exists.

When the second test of the spring comes, its character will primarily be revealed by the level of volume. To be considered positive, the volume must be lower than on the first test and preferably lower than that experienced on the spring. Ideally, the price will support at a higher level than the first test and keep the apex intact. From a more practical standpoint, the apex is likely to be penetrated on the downside. A springing of the first test must be considered a good possibility.

All this talk of springs and positive responses seems to overlook the continuing longer term divergence between the Wave and O.P. With this still in effect, it seems as though the market can spring all it wants and have little chance of making any significant progress on the upside. This may happen. If it does, the result is going to be an even more serious divergence and the possibility of a major break to the downside.

In order for the door to a new important advance to be opened, the divergence needs to be relaxed. This means the O.P. has to come down without producing a collapse in the Wave. The testing process can accomplish this, but it will take some time. Another way to accomplish it is with a shakeout. This would drive the Wave below the bottom of its trading range again and down to or toward the previously defined objective of 3425 to 3525. If this happens, the O.P. should be forced down quite a bit, which will make it easier for the Wave to rally.

Of the options available, the successful second test possibility seems most likely. This is followed by continued trading range and the shakeout possibility. A total collapse appears to be the least likely possibility at this point.

The apex that appears on the weekly chart of the Wyckoff Wave becomes a much more important development when attention is turned to the intermediate picture of the daily chart. Here it is revealed that the apex is formed from the supply line and demand line of opposing intermediate trends. The winner in this battle determines the direction of the next important move in this time frame. As is usually the case in an apex, the evidence is mixed.

The price volume behavior during the last several rallies and reactions has been positive. Volume has tended to increase on rallies and decrease on reactions. With the market currently at the demand line of the apex, this pattern is encouraging because the Wave desperately needs a rally. Unfortunately, at the same time the market remains relatively overbought. Therefore, a rally now is not likely to produce lasting results. The only way it can is if the market becomes oversold first, which is going to be hard to do without breaking the demand line of the apex. Therefore, it appears that the down trend still has the upper hand in the battle. Before any significant progress is going to be made on the upside, a more important test of the support around 3640 is likely.

The short term trend of the market is down, but it is not worth trading. What little count there was has been used up. In addition, the nature of the reaction defies definition of a down trend channel. Therefore it is not possible to know what the position in the trend is. This makes trading too risky.

GROUP ANALYSIS

If all or a majority of the groups were in apexes, it would be reasonable to anticipate an explosive move by the market from its apex. They are not, however. If anything, the process of rotation still appears to be very much in control.

The trend of the aerospace group is down. Like the Wave it also was in an apex until a few days ago. The action this week has broken the apex on the downside. The objective is now 6700 to 6750. Short positions in this group should be held. There is no reason to even consider being long in this area at this time.

In recent days, the airline group has been in the news and the news has been negative. The index, however, went into a spring position on Tuesday and began to respond yesterday. It appears headed back to the top of the trading range. This makes it a short term candidate on the long side, but of little interest to anyone else. At the top of the trading range, watch for a more important short selling opportunity.

The auto group has out performed the market recently, but has now used up its upside potential. It also appears to be breaking its short term uptrend. This may be in response to the upthrust position of last Monday. A successful test of the upthrust may be viewed as a short term short selling opportunity. Otherwise, the group should be left alone until it backs off to an important support area.

The intermediate down trend in the banking group is over. At the beginning of September, a spring position existed. Since then, there has been a positive response, which has now given way to a test on decreasing volume. As the market becomes oversold and works its way into a buying position, this group should be considered for a long position. There is perhaps as much as nine hundred points of potential in the index.

A positive banking group usually means a positive building materials group. This is the case currently. A conservative upside objective of 2950 is in place and higher objectives can be taken. The place to consider a long position in this group is at the demand line on reduced volume.

The action in the chemical group has been very positive. A spring position turned into a jump across the creek followed by a successful back up. The only potential problem is the need for a second back up. Thus far, however, it has been constructive. If this remains true and the market moves to an oversold position, the group should be considered for a long position.

The computer group is in an apex and appears to be trying for a break to the upside. It is not an aggressive effort, however. The group may be considered for the long side if timed with the general market.

The diversified group is in an uptrend and approaching an important resistance level. It is also nearing the top of the uptrend channel. This puts it in a poor position for action on the long side at this time. Wait for a pull back to the demand line. If the volume is relatively low, buy for an objective around 5600.

The drug group is a difficult one. After being in an extended spring position, the index finally started to rally about two weeks ago. It has since moved into an upthrust position and fulfilled an upside objective. There is a higher objective however. Can the index get to the higher objective in view of the upthrust position? It can if the pull back from the upthrust meets with support very quickly on a rapid decline in volume. If this occurs buy for the higher objective. If volume does not contract or the price has to move to the middle of the trading range before meeting support, do not buy. The next rally is likely to be a test of the upthrust and should be shorted.

The electronics group is currently testing an upthrust on higher volume. It is also in an apex. If the volume was low, the test of the upthrust could be called successful and a break on the downside anticipated. The high volume suggests the need for an additional test. At the moment, no action seems warranted in this area. The risk is too high. Watch for a shorting opportunity on a better test of the upthrust or a buying opportunity on the back up to a creek that has not yet been jumped.

The gold group recently went into a spring position and failed. It is now approaching an oversold position in the down trend. No action is warranted in this group.

The insurance group has been out performing the market on the upside. As of the end of last week, it was in an upthrust position. Since then the index has backed off toward the demand line of the uptrend. It is uncertain at this point, whether the demand line will hold due to the increased volume yesterday. If it does and the volume contracts again, this group can be bought as the market becomes oversold.

The metals group has been a very strong performer in recent months. It has a higher objective. However, recently it became overbought and now has a need to correct that condition, which it is doing with a short term down trend. Assuming the demand line of the intermediate uptrend is not broken, this group may be considered for new long positions when the supply line of the short term down trend is broken.

A change appears to be occurring in the oil and oil exploration groups. These two usually move in very close harmony. For many months, the trend in both has been up. Now the uptrend in the exploration group has given way to a trading range. Therefore any long positions should be considered for a sale on the next rally. Due to the parallel nature of the action in these two groups, the next rally in the oil group should be watched closely as well. If it fails to reach the overbought line, it will be a sign of fading strength and a reason to take profits.

The intermediate trend in the semiconductor group is neutral. The short term trend is up, but that appears about to change. The upside objective has been reached and the price is in the process of breaking the demand line. Therefore, a neutral position in this group now appears in order.



SEPTEMBER 28, 1983.

INDEX CHARTS **STOCK MARKET INSTITUTE, INC.**

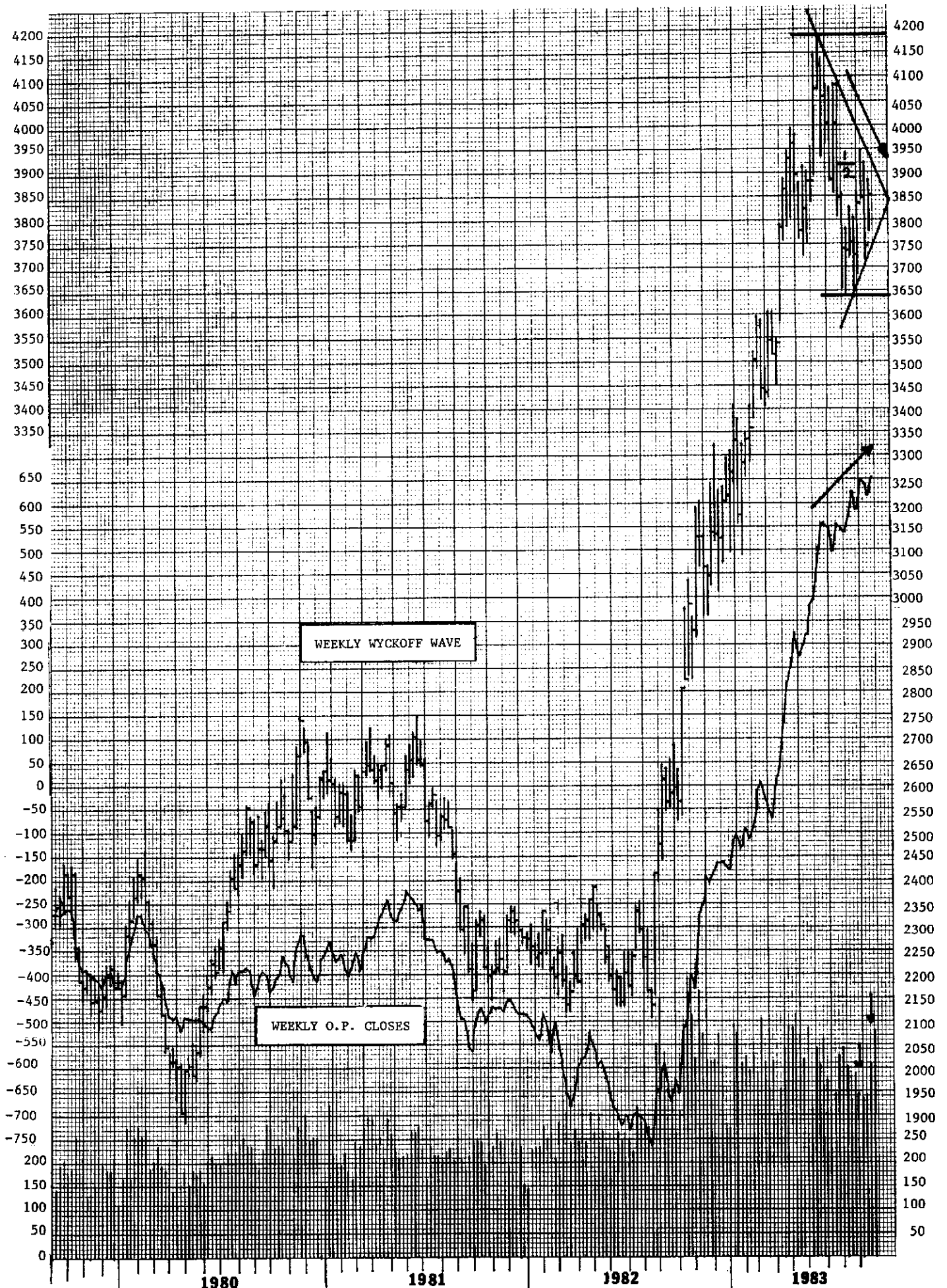
This set of SMI Index Charts is published weekly and is available only to subscribers of SMI's DAILY STOCK REPORT/PULSE OF THE MARKET or SMI's CHARTING SERVICE. It contains the following charts:

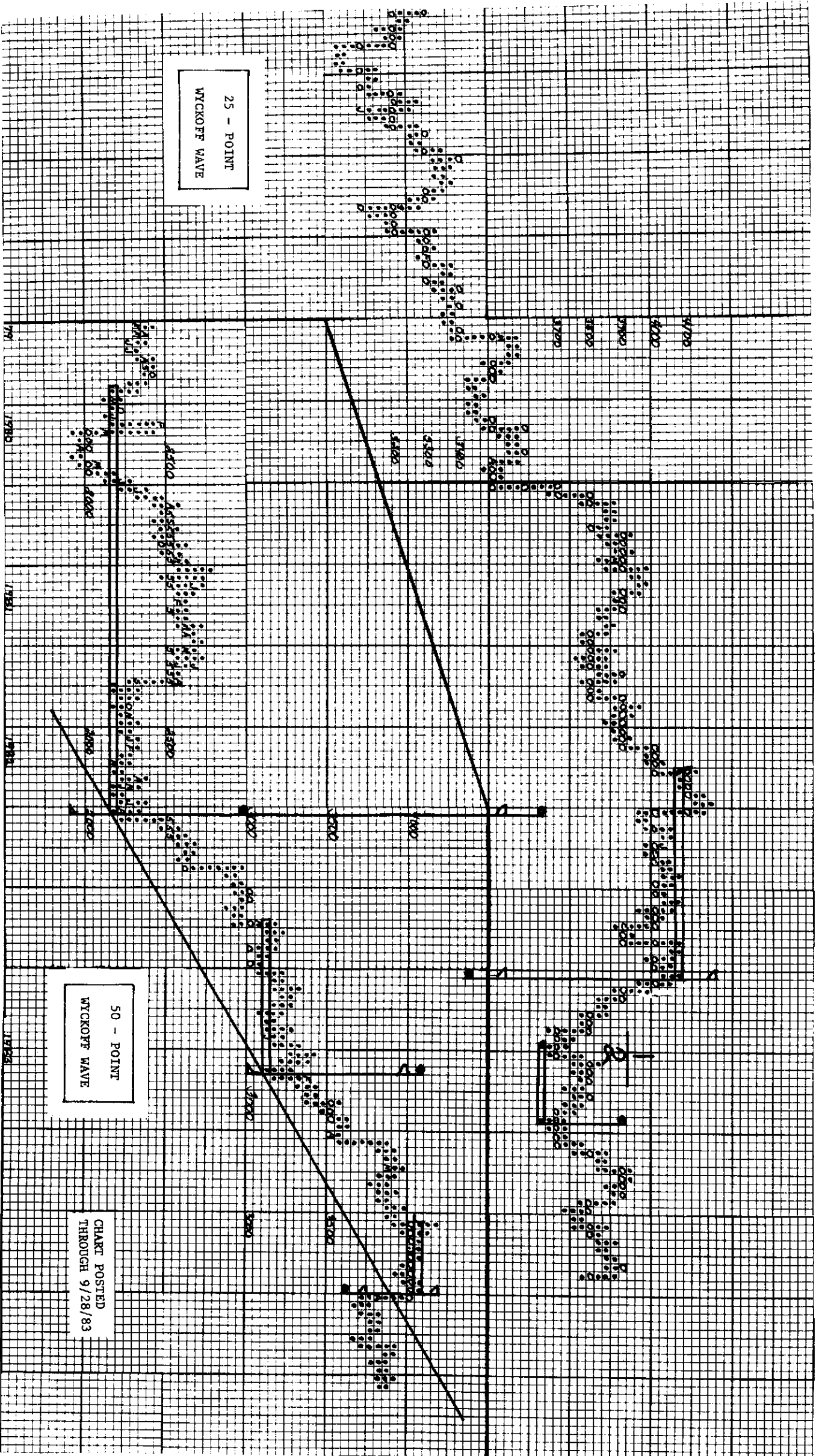
Weekly Wyckoff Wave
 50-Point Modified Wyckoff Wave
 25-Point Modified Wyckoff Wave
 3-Point of the 10-Point Modified WW
 10-Point Modified Wyckoff Wave
 Two Point Modified O-P
 1/2-Point Time Index
 Trend Barometer/O-P
 Intra-Day Wave Chart
 5-Point Modified Wyckoff Wave

Group Indexes:
 Aerospace
 Airlines
 Autos
 Banking
 Building Materials
 Chemicals
 Computers
 Diversified
 Drugs

Electronics
 Gold and Silver
 Insurance
 Machinery
 Medical
 Metals
 Office Equipment
 Oil Exploration
 Oils
 Semi-Conductor

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.

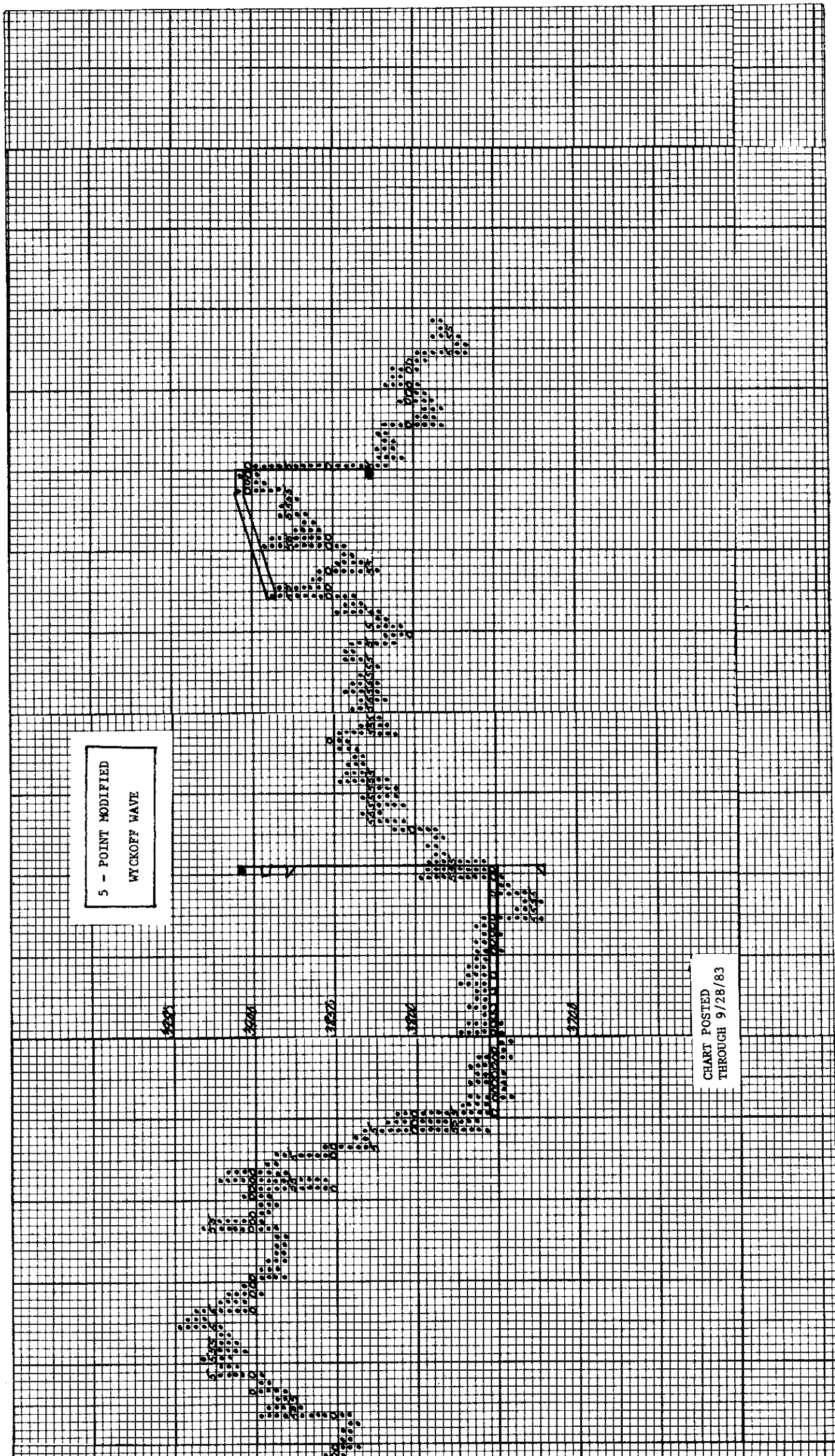




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WYCKOFF WAVE

50 - POINT
WYCKOFF WAVE

CHART POSTED
THROUGH 9/28/83

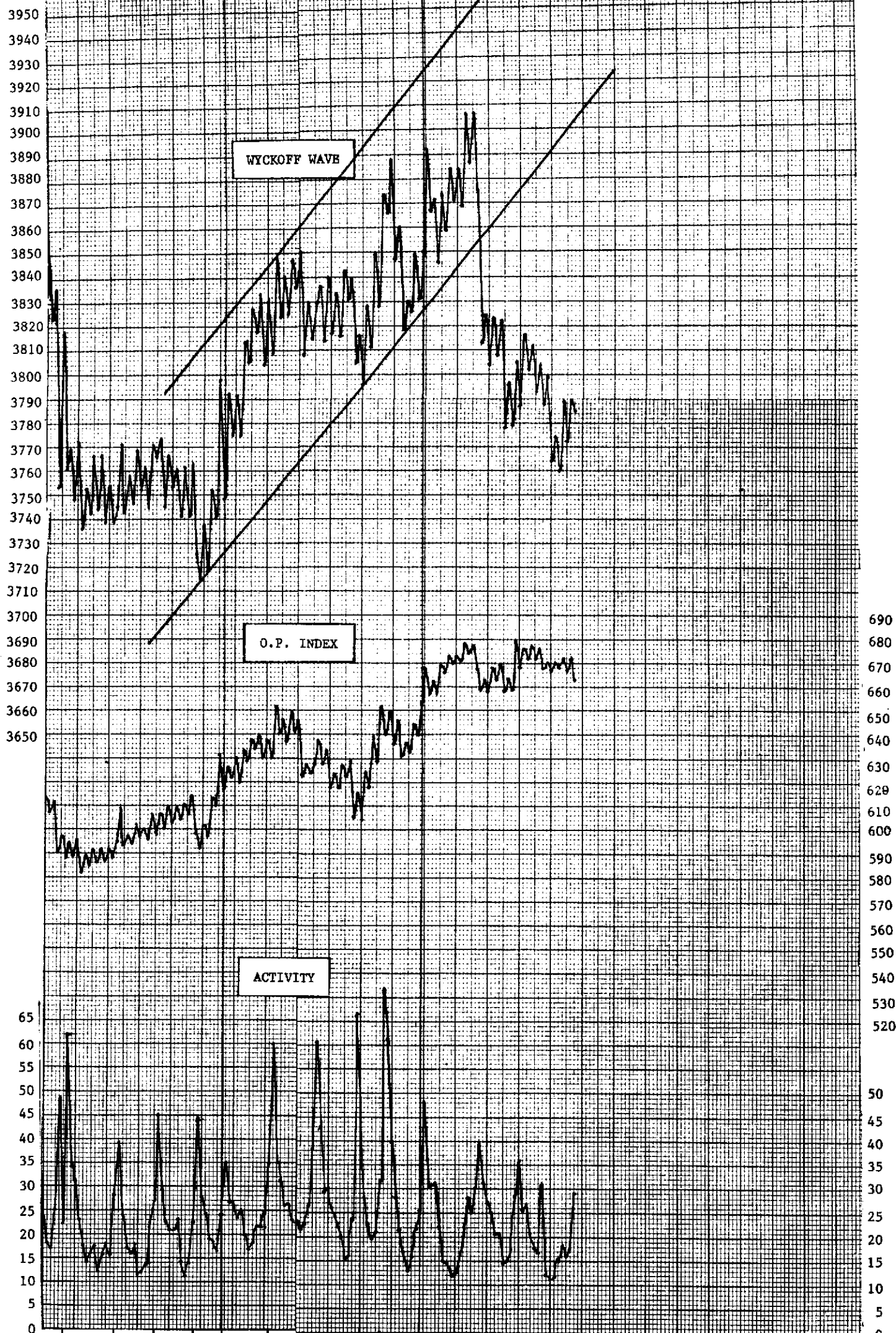


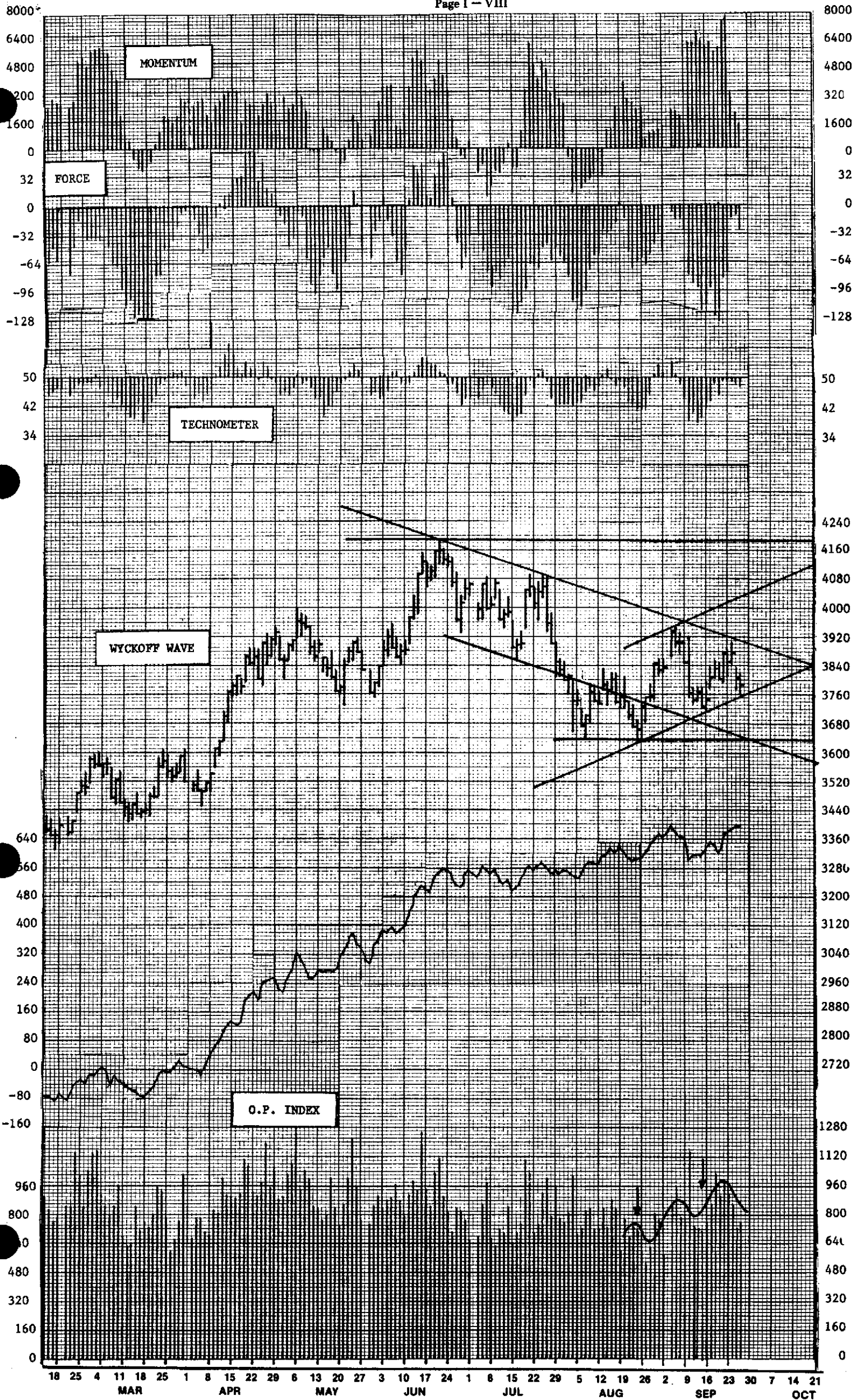
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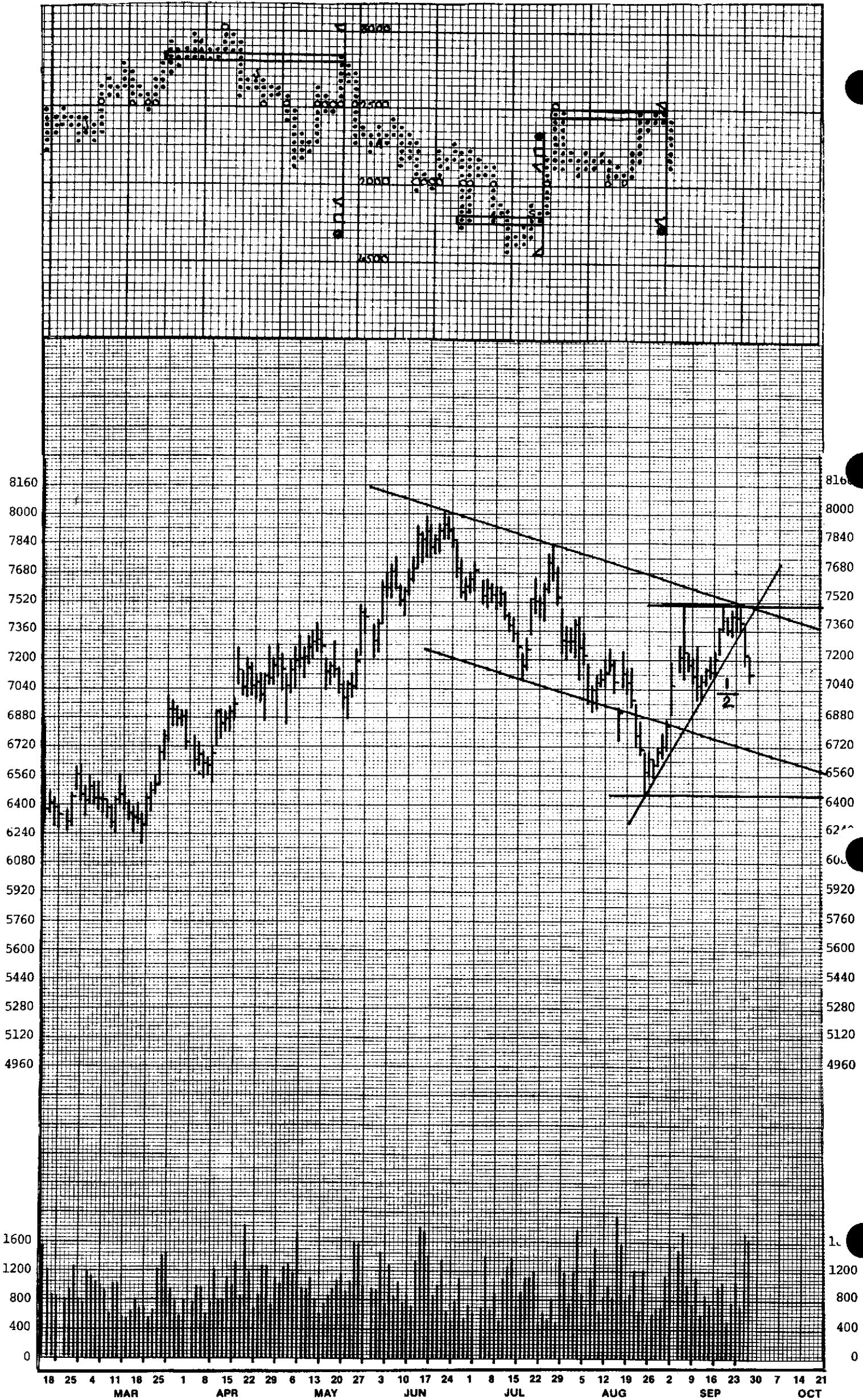
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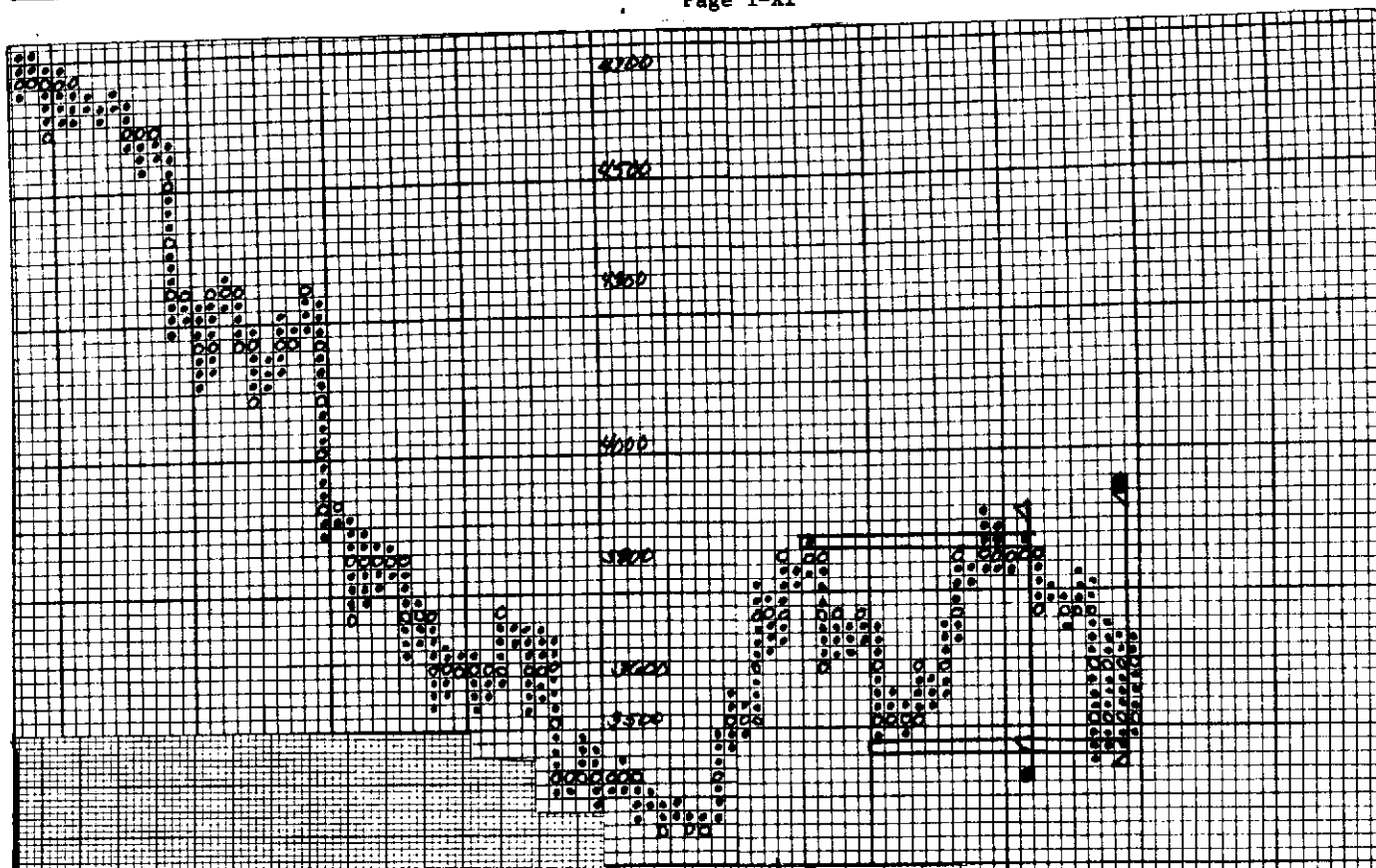


INDEX CHARTS

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AIRLINE GROUP
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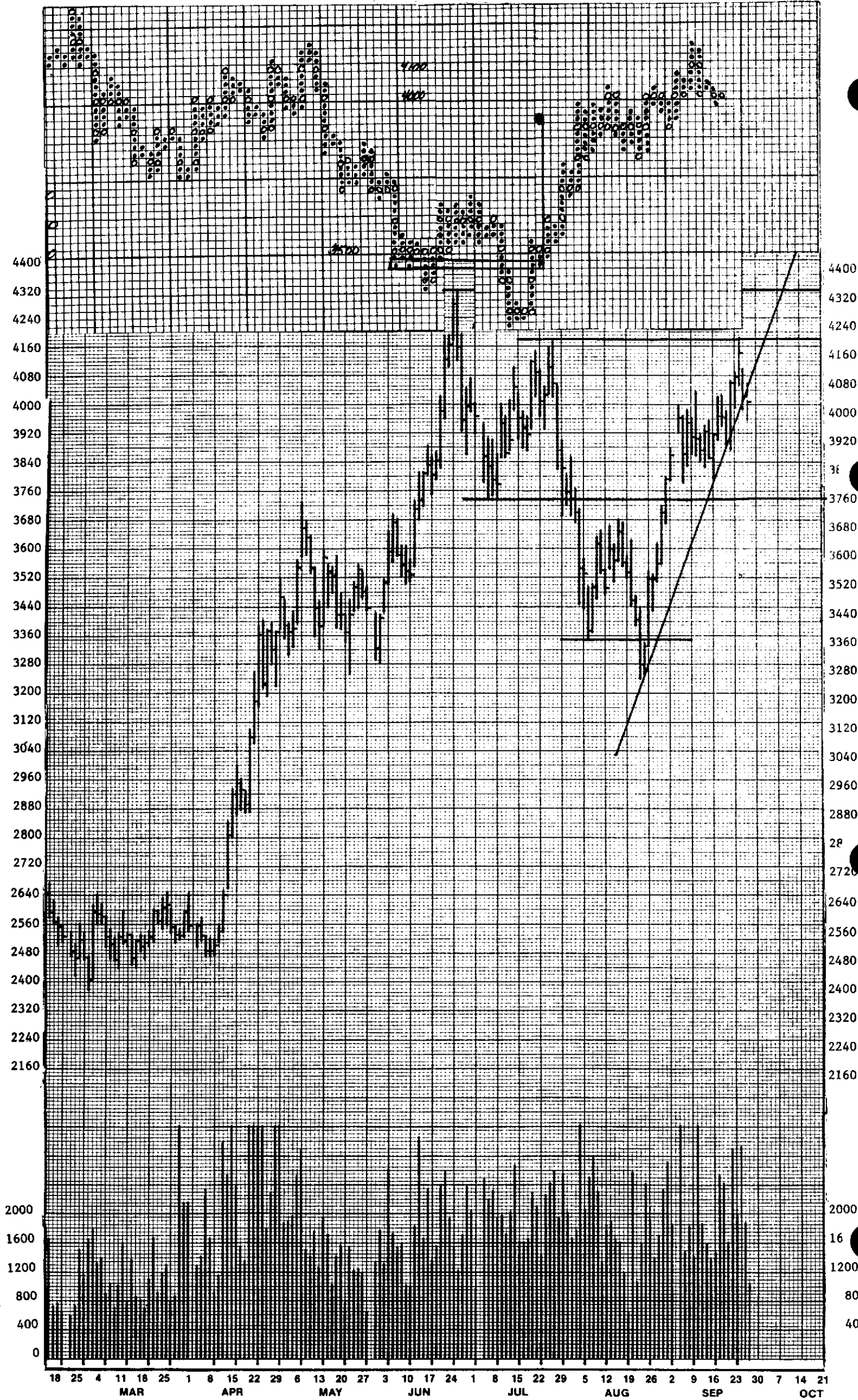


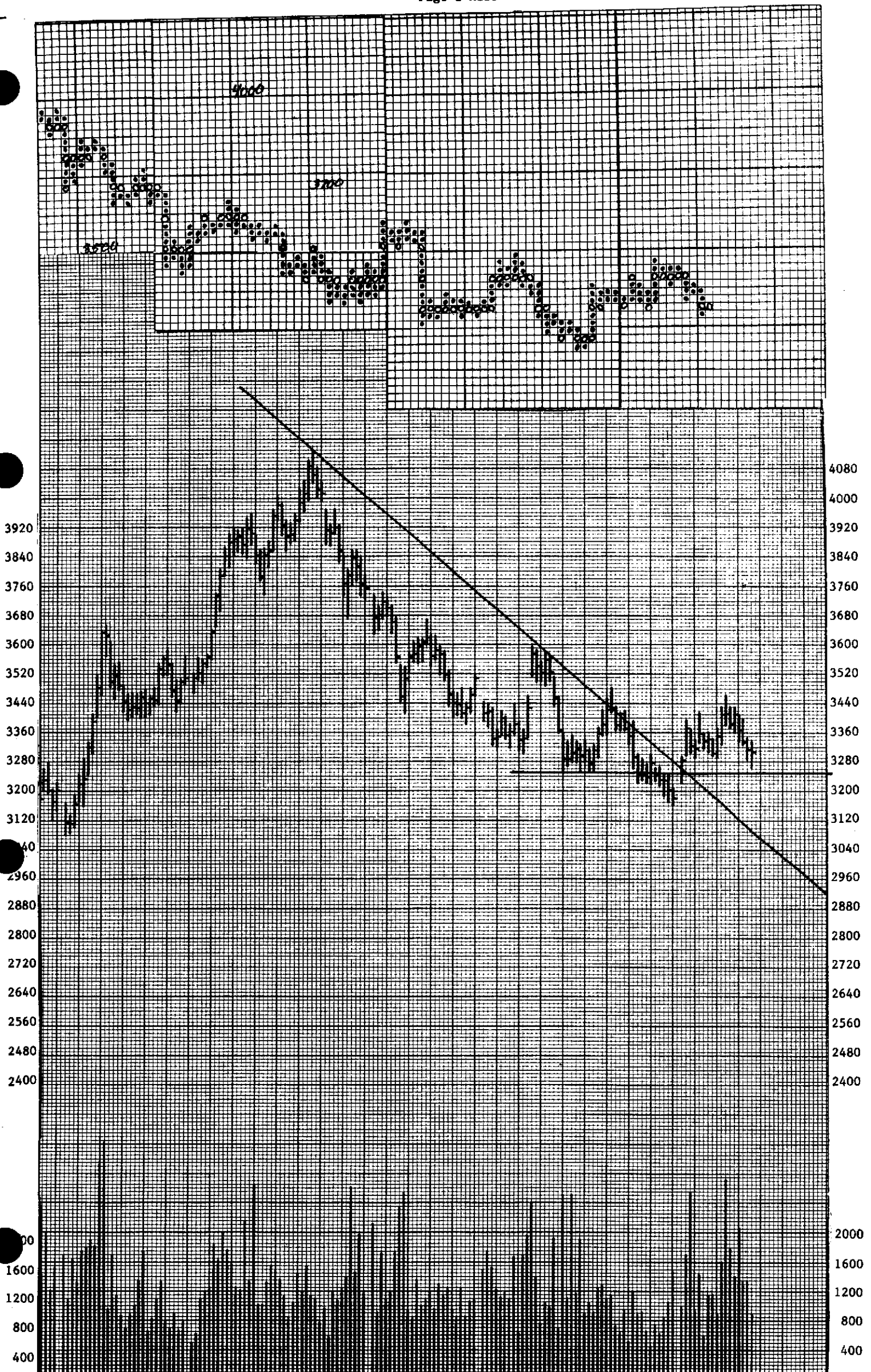
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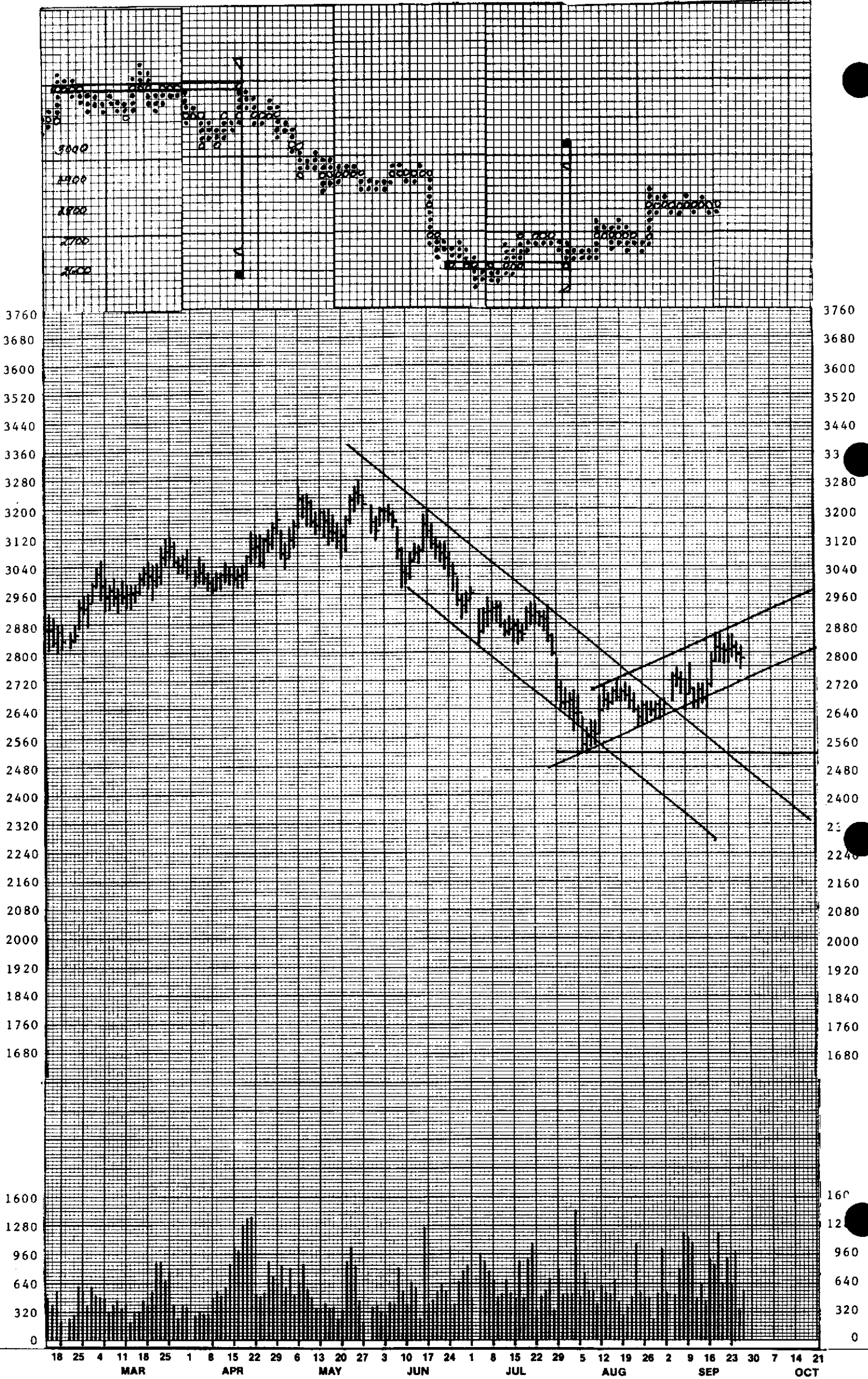
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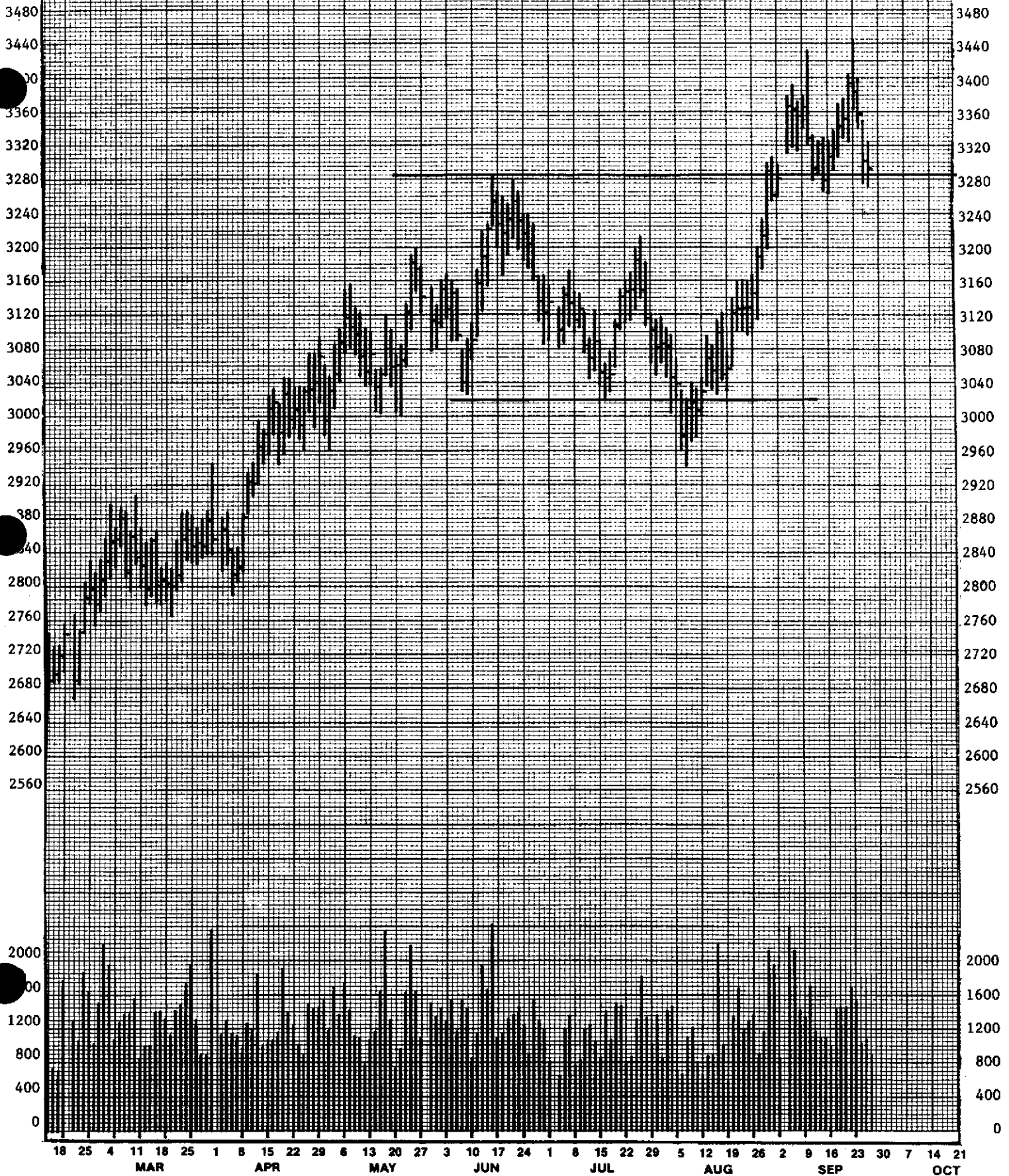
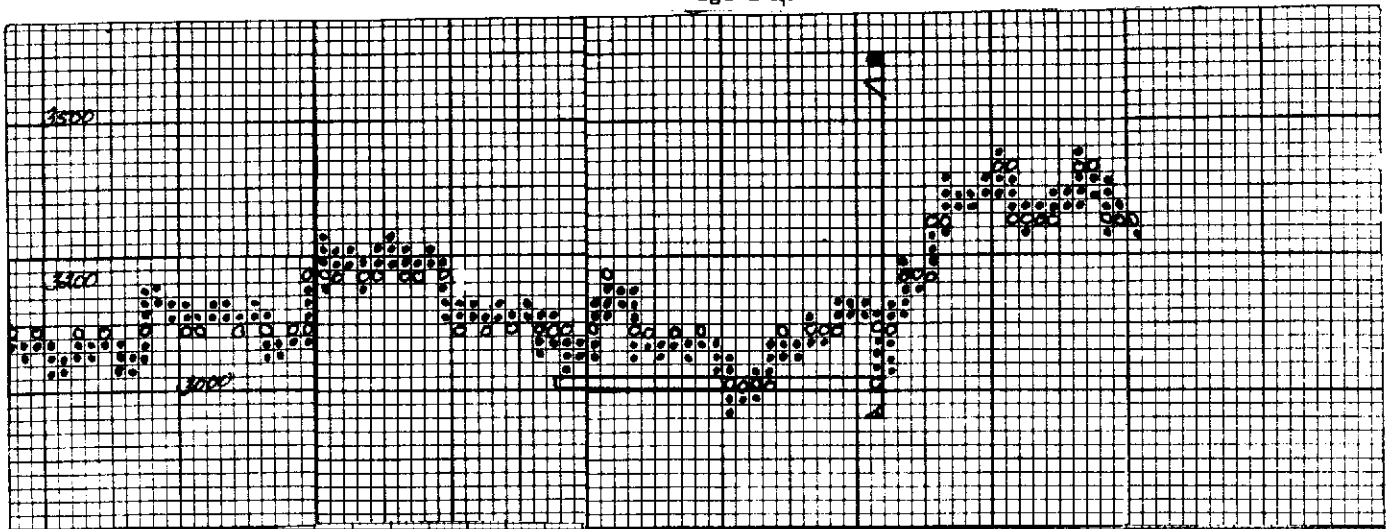
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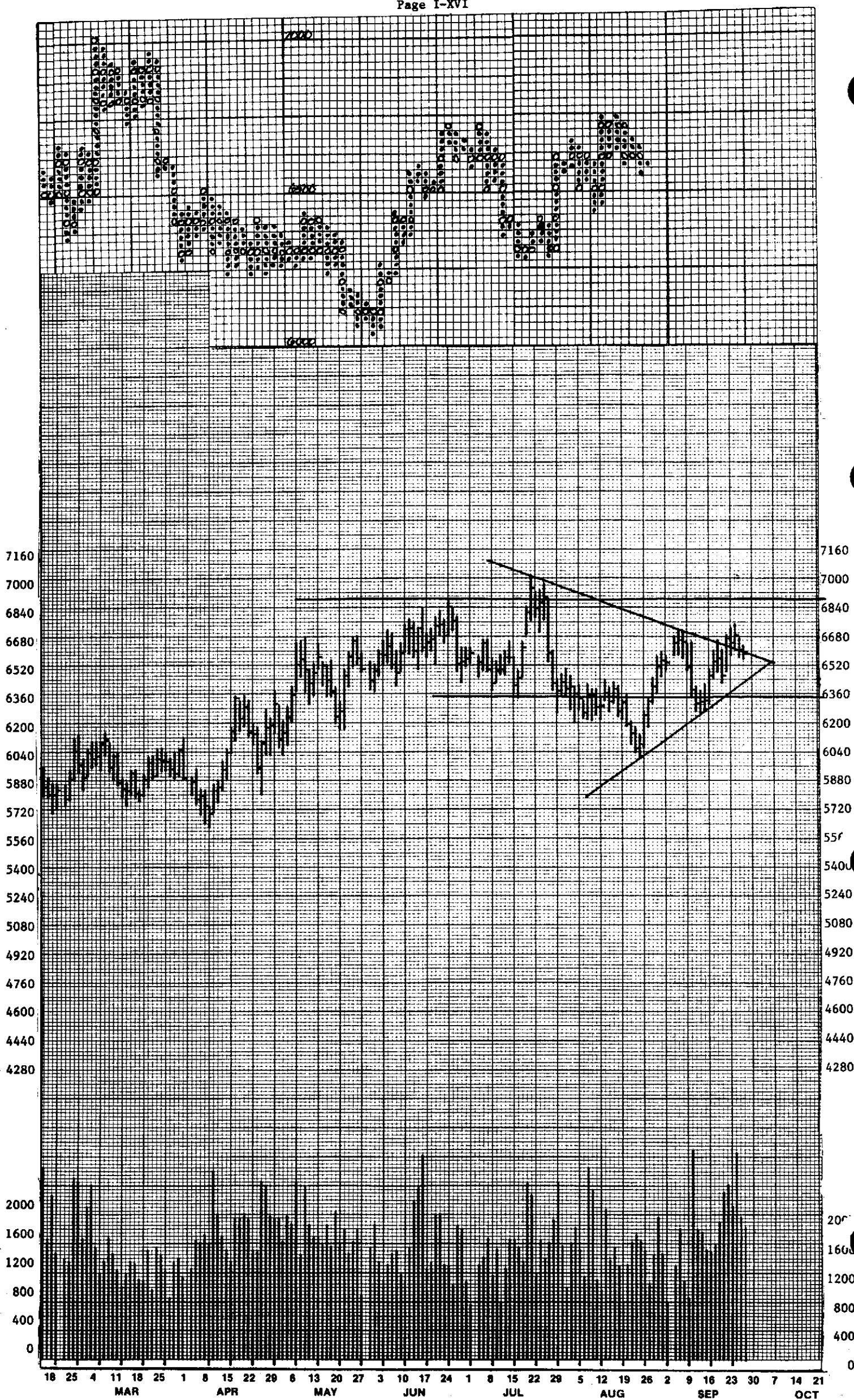
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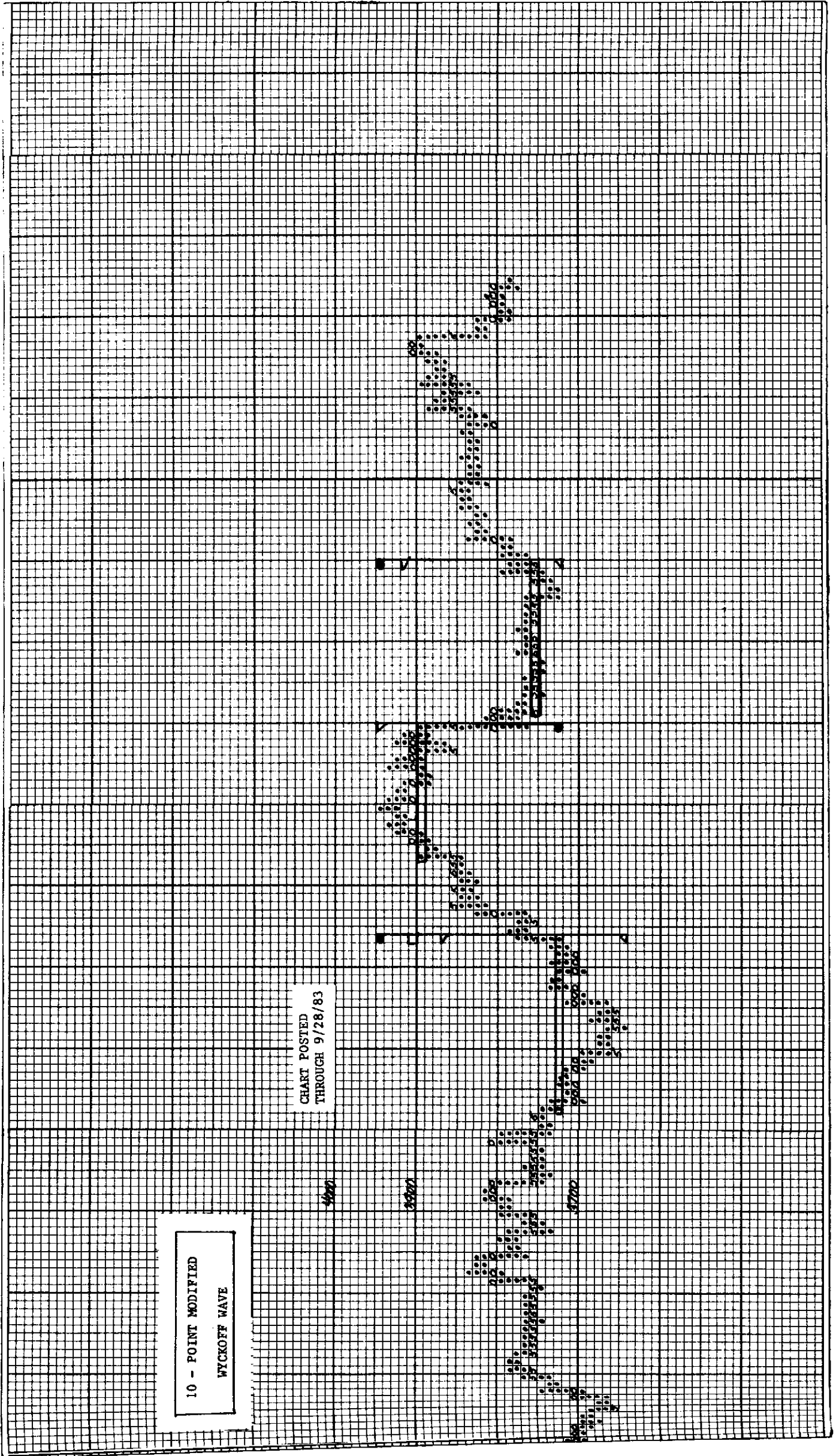












10 - POINT MODIFIED
WYCKOFF WAVE

CHART POSTED
THROUGH 9/28/83

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