

STOCK MARKET INSTITUTE

Founded in 1931

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TRENDS AND TRADING RANGES

Tuesday, February 15, 1983

On Friday, February 11, the Wyckoff Wave was on the verge of breaking out on the upside from the trading range it has been in since December. The same had been true earlier in the week on Monday. Both times, the chances of success were even and both times the market failed to accomplish the break. There had also been an attempt the previous week that failed, but its failure was much more certain. Is there any significance to repeated attempts to accomplish something that fails to succeed? The answer to this almost has to be yes. Obviously, if the market keeps trying something and failing the significance is that it is not ready. Does this mean, however, that it is not ready and never will be, or just that it is not ready now? The answer to this question is more difficult, but it is the one that really matters.

During the first half of January after a period of preparation, the Wyckoff Wave rallied into an upthrust position on above average volume. When it failed to break out, it was indicating a lack of readiness and perhaps a more permanent unwillingness. The response was a rapid reaction well back into the trading range. This occurred without a very significant contraction in the level of volume, which is consistent with a market that is making important preparations for the downside. On January 31st, the market had a chance, a beautiful chance in fact, to lock the door to the upside once and for all.

The last trading day of January was significant because it represented a lower volume test of the earlier upthrusting action. This occurred in an overbought market with relatively heavy downside force and virtually no interest in the upside. Other than a wide open break with volume on the downside, it is difficult to conceive of a more negative set of circumstances than the ones that existed on January 31.

The market began its response to the test of the upthrust in a manner that suggested that it was not only not ready to break out on the upside, but that it was through trying. The first day of the response brought a good decline on increased volume. On the second day, volume remained about the same, but support came in and slowed up decline. The third day brought a reversal in price without much downside progress having been made. Had the second day of the decline been accompanied by a sharp decline in volume, the indication would have been extremely positive. This did not happen, but what did did not tend to confirm the very negative indication of the test to the upthrust. The question then became whether the door to the upside really was closed and locked. We know now that it was not locked because last week the two additional attempts to break out occurred. If the door had been locked, these would not have happened. What does this tell us about the future?

It tells us not to expect an important break on the downside immediately. This conclusion was possible as soon as the follow through to the test failed to develop as it should. The action of the past week has only served to strengthen the idea. Beyond this, however, we are given very little in the way of clues about what is going to happen next.

Since about mid December, the Wyckoff Wave has been in a gradually inclined uptrend channel as well as the trading range. We know that the current position in the trading range is potentially very negative. However, the same thing cannot be said of the position in the uptrend channel. The Wave is currently almost exactly in the middle of the trend. This means that it should be able to move freely in either direction. If it chooses to rally to the top of the trend channel, this should accomplish the upside breakout and close the door to the short side once and for all. If the market chooses to react back to the bottom of the trend channel, the result may also be positive. This would put the Wave just barely back in the trading range. If accompanied by relatively low volume, such a reaction could be seen as an important last point of support. This would also close the door to the short side once and for all.

There is only one type of action that will leave the door open to downside progress. The market will have to move back to the bottom of the uptrend channel but on increasing or at least sustained volume. The volume is needed to allow for the breaking of the uptrend's support line. Once this is accomplished, the trading range can take control again and perhaps drag the Wave back down to the 3000 area.

At this point the three possibilities are all equally possible. Since the market is not in either an overbought or oversold condition, it cannot be said that one possibility is highly favored over the other. There are a few indications being given by the Force, Momentum, and O.P., which favor the downside, but their influence is not overwhelming. For example, the Force continues to hold at a relatively negative level. This should work against a sustained rally. The problem with this is that the current position of the Wave does not require much in the way of a sustained rally to break it free from the top of the trading range. The momentum is also giving a potentially negative indication. It has moved up substantially in recent days, but is holding to its pattern of lower tops on rallies. Trying to sustain an advance in the face of decreasing interest in the upside usually does not work. The rally effort normally will fail.

The O.P. Index is also indicating a potential problem. If we focus on the daily closes of the Wave and O.P. we can see that in the past week the Wave has been pushed to new highs but the O.P. has not. This is an instance of result unsupported by effort. Unless the upside effort increases very soon, the price should start to fall back. This is not as clear cut an indication as upside effort without result, but it does have a negative potential and should not be overlooked.

Whenever the market stands on the verge of doing something important, it is an unsettling time. However, being on the verge of something and actually doing it are very different. The second requires a follow through on the first. Without that follow through coming at the proper time, the result will be a failure, which can and often

GROUP ANALYSIS

After going through a very poorly defined trading range from October into January the aerospace group has resumed upside progress. It is probably one of the groups most responsible for the recent strength in the general market. The last point of support before the advance appears to have been at 5400. If we take an up count at this level, the indicated objective is between 6525 and 6825. This range is just above current levels. Therefore, new positions in this group are questionable at this point. Even though a group has been relatively strong, the relative strength is of little value if almost all the potential has been used up.

An idea taught by Mr. Evans, who followed in the footsteps of Mr. Wyckoff was to buy all springs. Since the middle of last August, we have seen repeated examples of the value in this. A very good example occurred in the airline group on January 24. Although there was a very good response to the spring, no upside breakout occurred. Instead, a secondary resistance level within the broader trading range ended up being upthrust. Since then, the index has made a sharp correction. There is enough potential in place for this reaction to take the index all the way back to 3200. This group remains a good potential short candidate.

It is well known that the market anticipates the future and then discounts it when it becomes reality. This can be seen in the auto group. While the industry seemed to be nearing extinction, the index surged upward. Now that the industry appears to be showing new life, the group index has begun to stumble. Its major uptrend is still intact, but other influences have entered the picture. In addition to the previously defined uptrend, there is now a well defined down trend and trading range. This makes for a battle between the forces of supply and demand. Longer term long positions may be retained in this area as long as the uptrend holds, but new positions on either side must be discouraged until we can get some feel for which side is winning the battle.

The important promise made by the advance that began in August was that of a major bull market taking shape. This, of course, is a dream come true for long term investors and one that has not been realized in many years. The unique thing about a major bull market is that entire legs of the advance can be missed and still result in a good profit. The technique is simply to wait for the previous leg to be corrected and then buy. Patience is required, but is usually rewarded. One such possible reward may be taking shape in the banking group.

The interesting development in the banking group is that the first leg of the advance has now been corrected in a normal and what appears to be a constructive manner. The recent low at 2950 has established a support level at almost exactly the halfway point. This level has not been adequately tested as yet, but when it is important buying may be in order if the test holds. There is still need for patience here, but a little more patience may yield a good profit.

The building material group appears to be in trouble. In December, the group went into a spring position and responded positively. Unfortunately, the final result was an overbought and upthrust position in January. The test of the upthrust appears to have occurred last week on substantially lower volume. Therefore, an upside breakout in this area seems very unlikely. A return to the bottom of the trading appears very likely at this point. It could result in a new spring position.

The appearance of the computer group is very similar to that of the aerospace group. The group is strong and has likely played an important part in the recent strength of the general market. The problem is that the potential has been just about used up. Therefore, if continued strength in the general market is to continue it probably will not be due to this group. Therefore, no new action is warranted here at this point. In addition, it might be a good idea to consider taking short term profits out of the long side in case the reaching of the upside objective results in a correction.

Another group that appears to be in some trouble is the drugs. At the moment, this index is well below its high, which puts it in a relatively weak position compared to that of the market. In addition, there are varying degrees of downside potential that can take the group down to and beyond the halfway point of the prior advance. The development of an overbought condition in the general market may produce a good short selling position in this group.

Although not indicated on the enclosed chart, the electronic group has just entered a potential upthrust position. It is also overbought on the uptrend that has been in progress since December. This combination is likely to make the group vulnerable to a reaction. Therefore, this is not a place to consider new long positions at this time. If anything, it is a time to consider taking profits from the long side especially those that have been built over the short term.

It is normal for the insurance group to move in harmony with the bank stocks. Therefore, if the banking group is approaching a potential buy point of longer term significance, it stands to reason that the insurance group may be in a similar situation. It is getting close, but is not there yet. The index is still above the halfway point and continuing to decline on rather high volume. What is needed is the indication of a climaxing to the down move and the building of a support level. When successfully tested, buying should be in order.

The medical group tends to move in harmony with the drugs. Therefore, a potential problem in the drug group may carry over into the medical group. On January 24, the medical group entered a spring position. On February 2, the spring was tested on volume about equal to that on the spring itself. This is the point from which a good advance should have begun. It didn't. After a couple days of advance a second test began. It is showing somewhat less volume than the first, but still no aggressive upward movement. The problem here is the continued inability to respond to the test. Eventually, the general market is going to get overbought, if this group is still sitting at the bottom of its trading range when this happens, it will be in a very precarious position.



INDEX CHARTS

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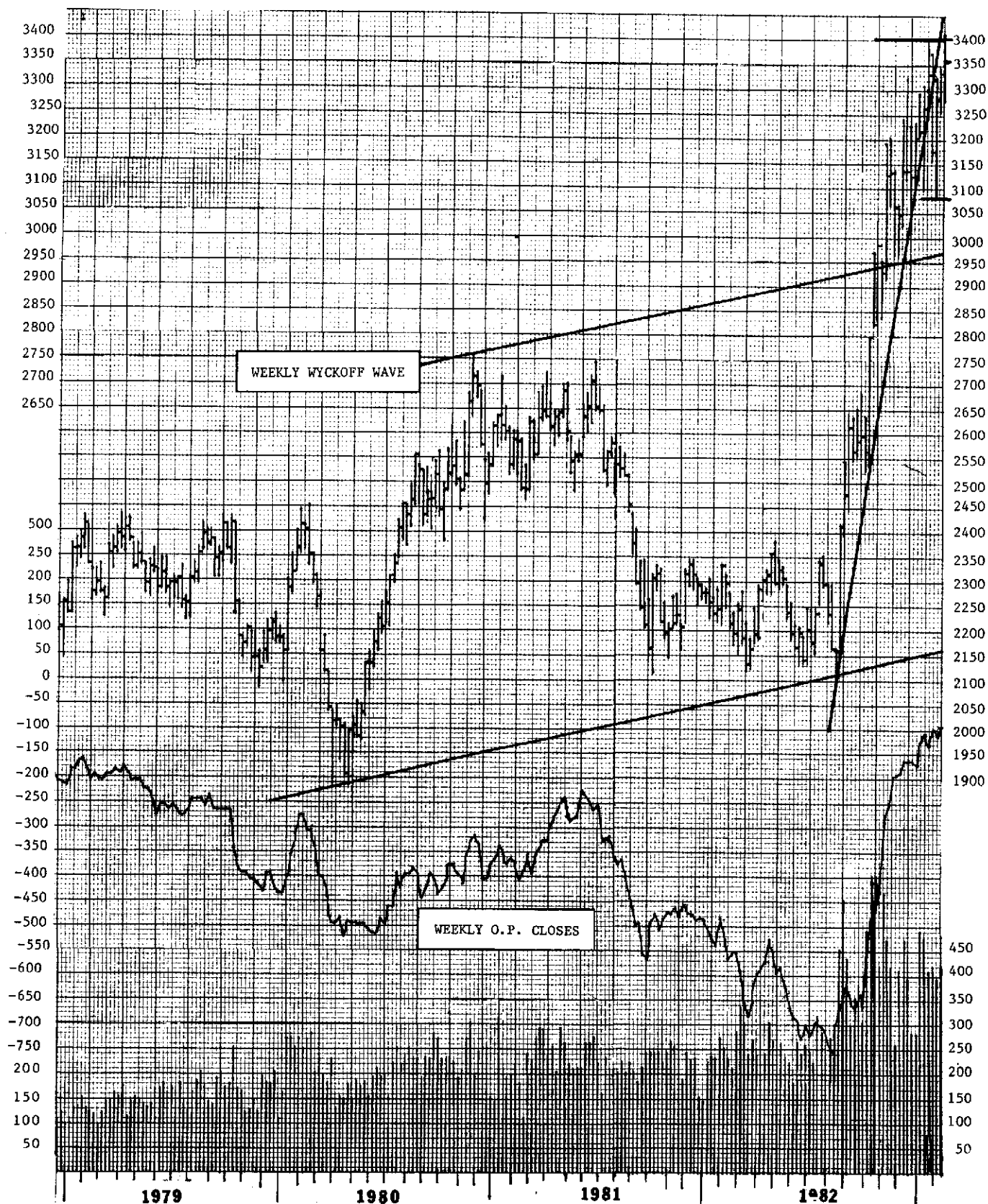
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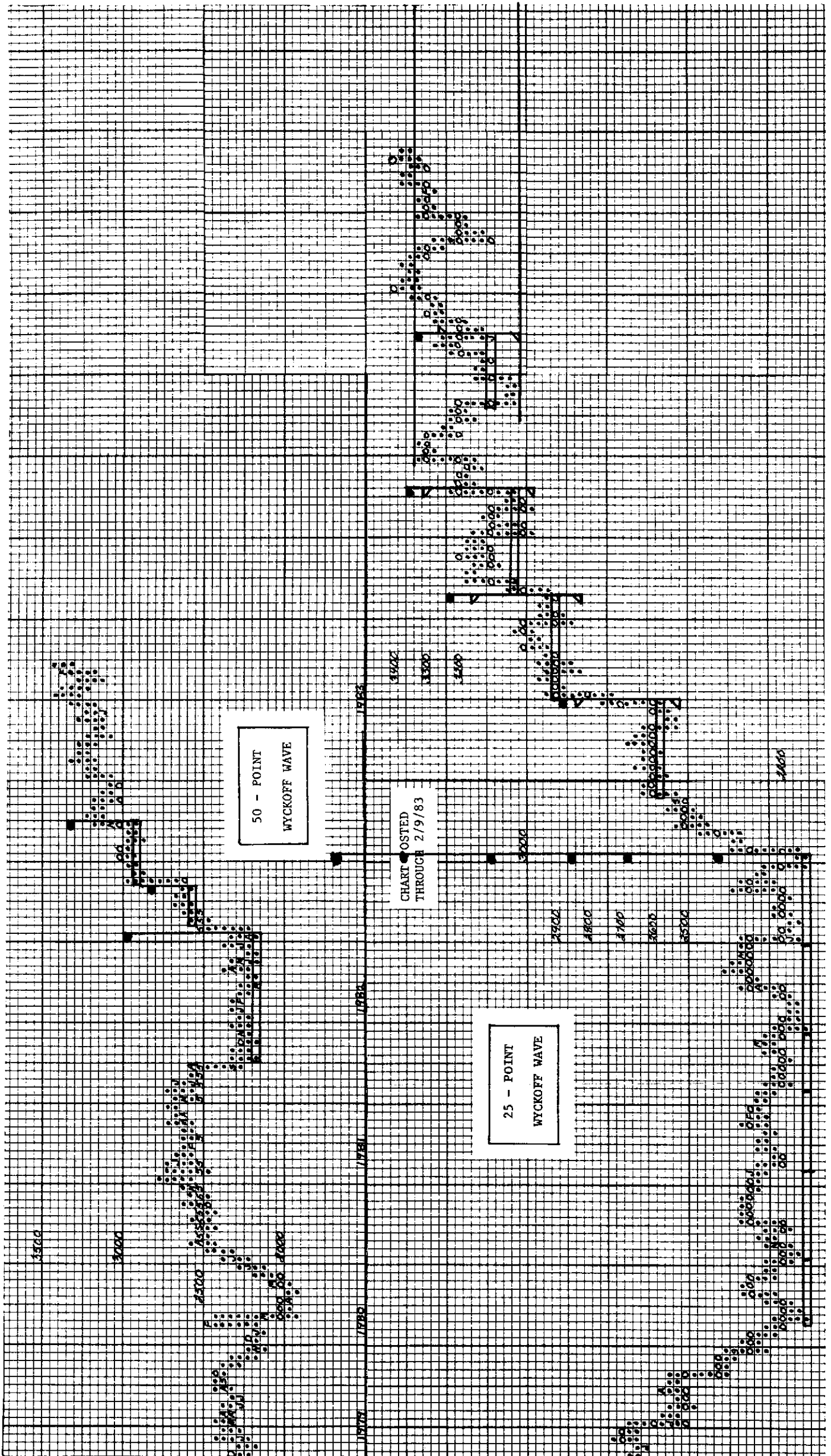
SMI/WYCKOFF INDEX CHARTS

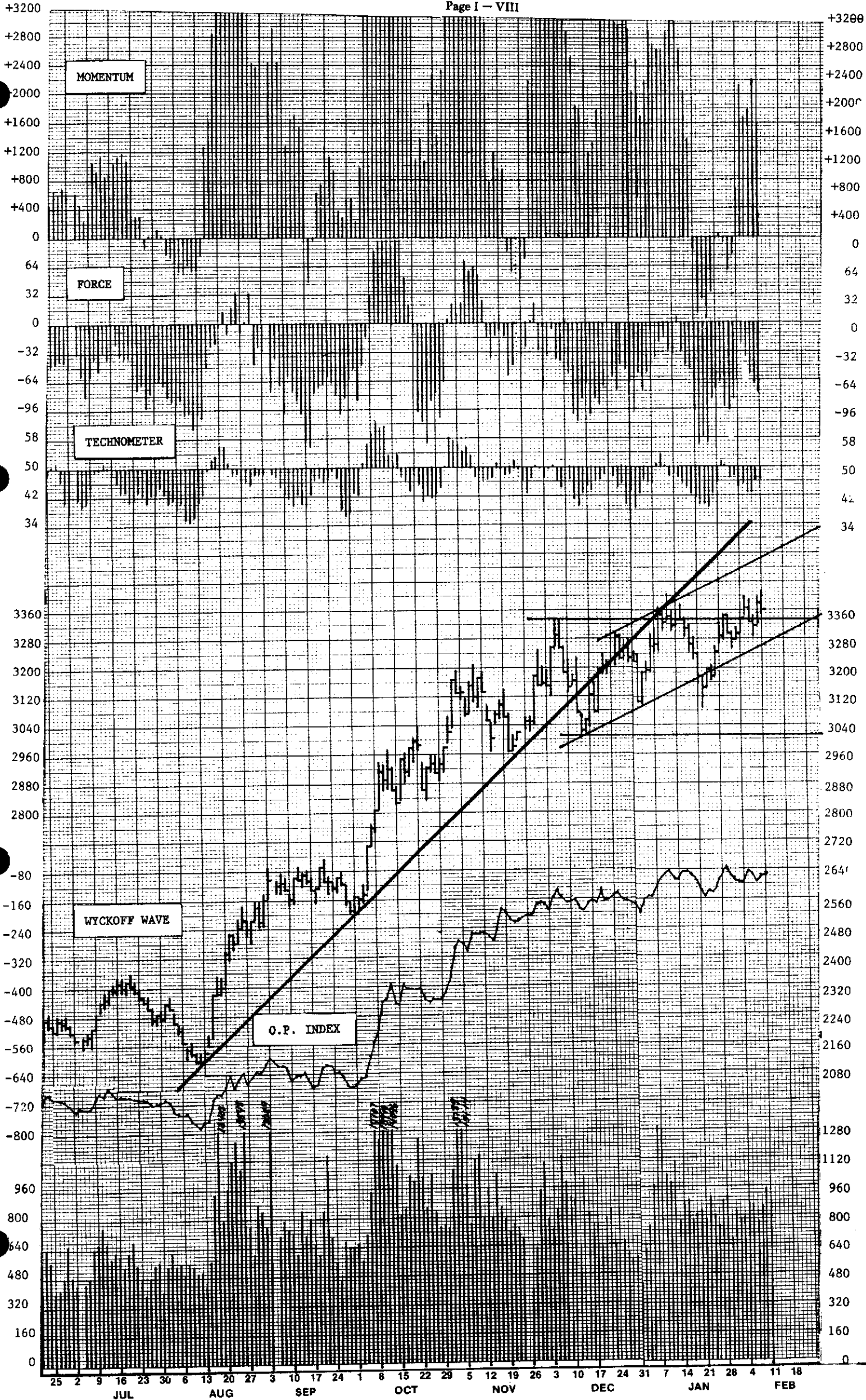
This set of SMI Index Charts is published weekly and is available only to subscribers of SMI's DAILY STOCK REPORT / PULSE of the MARKET or SMI's CHARTING SERVICE. It contains the following charts:

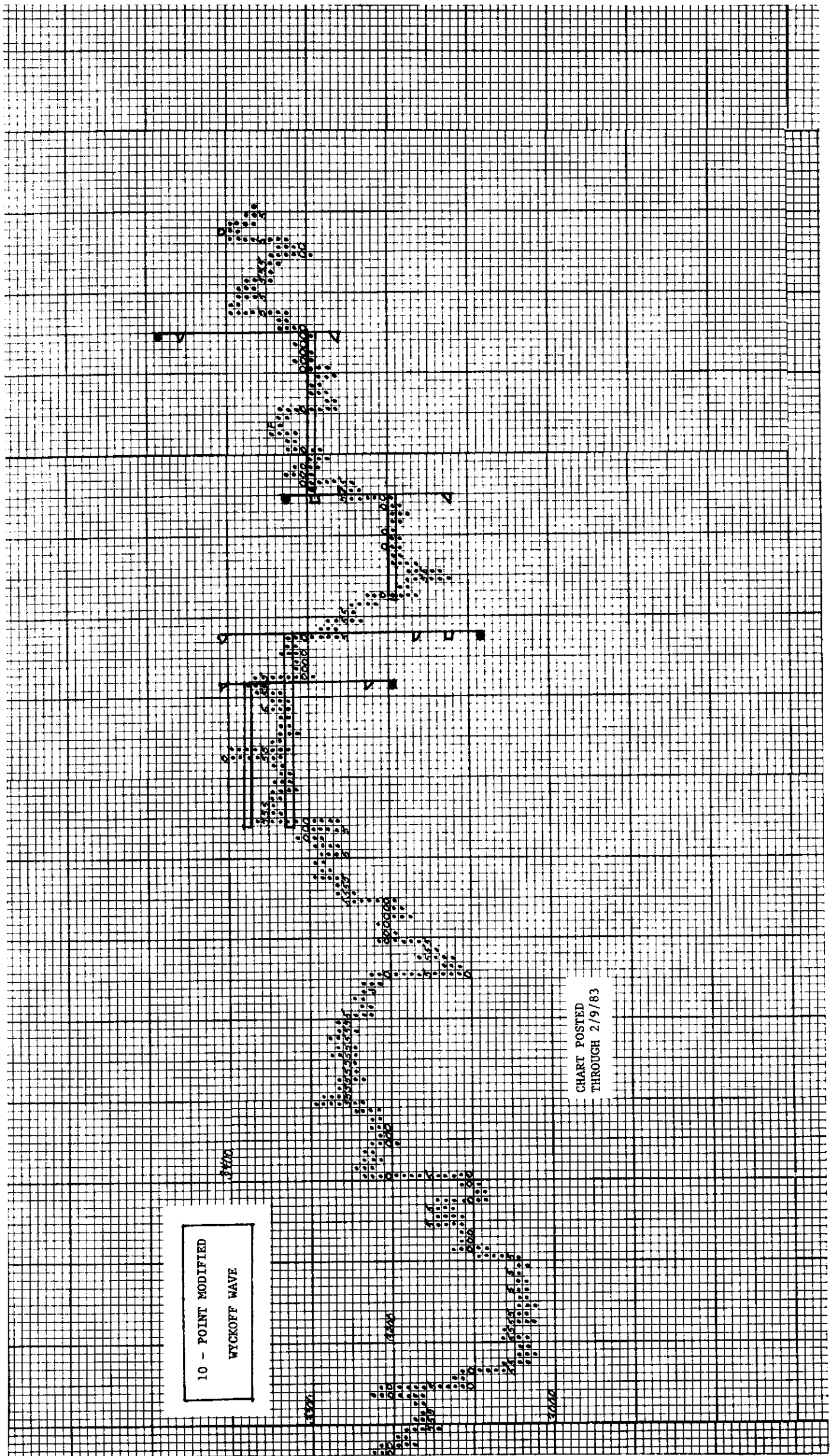
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| Weekly Wyckoff Wave | 1/2-Point Time Index |
| 50-Point Modified Wyckoff Wave | Trend Barometer/O-P |
| 25-Point Modified Wyckoff Wave | Intra-Day Wave Chart |
| 3-Point of the 10-Point Modified WW | 5-Point Modified Wyckoff Wave |
| 10-Point Modified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

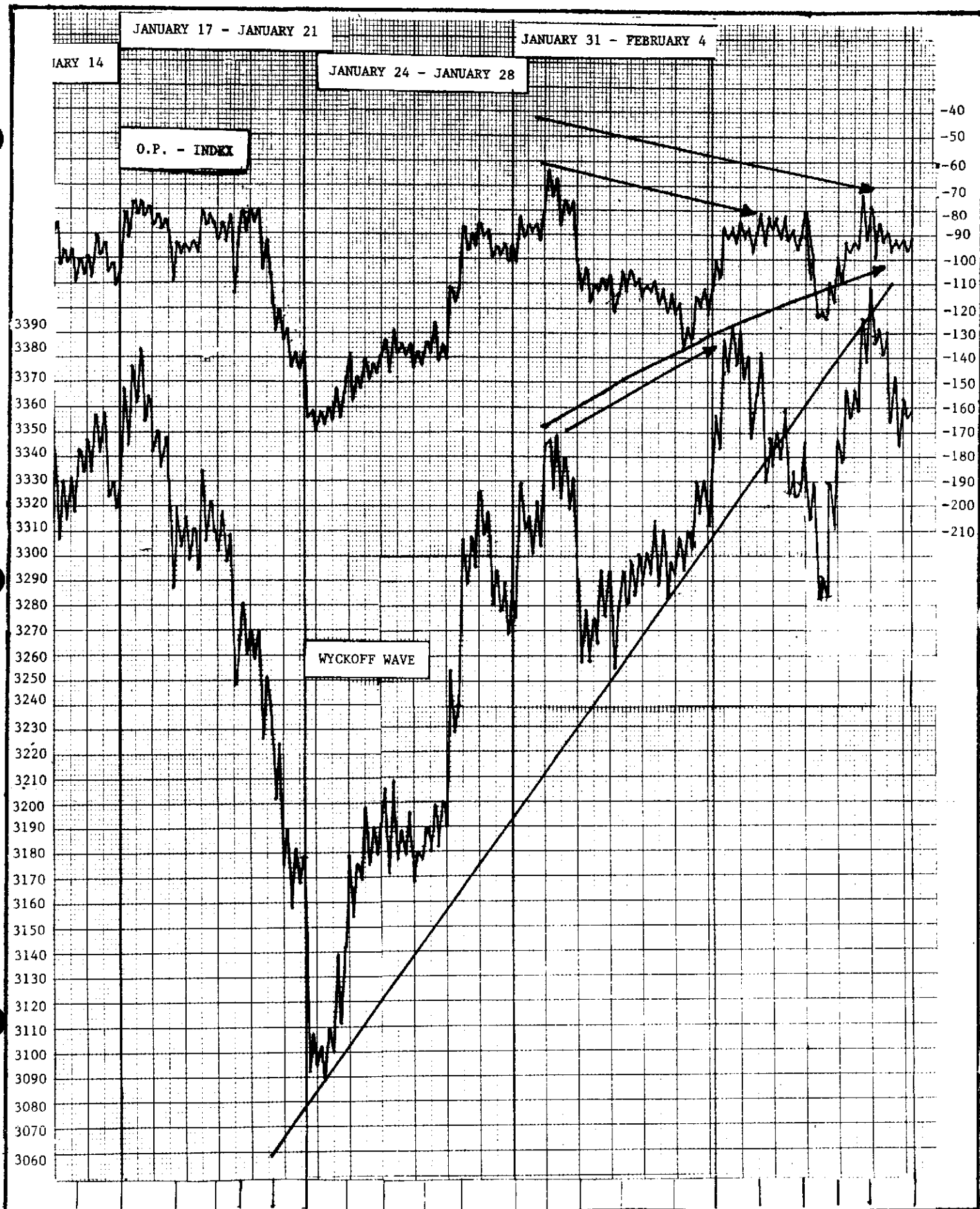
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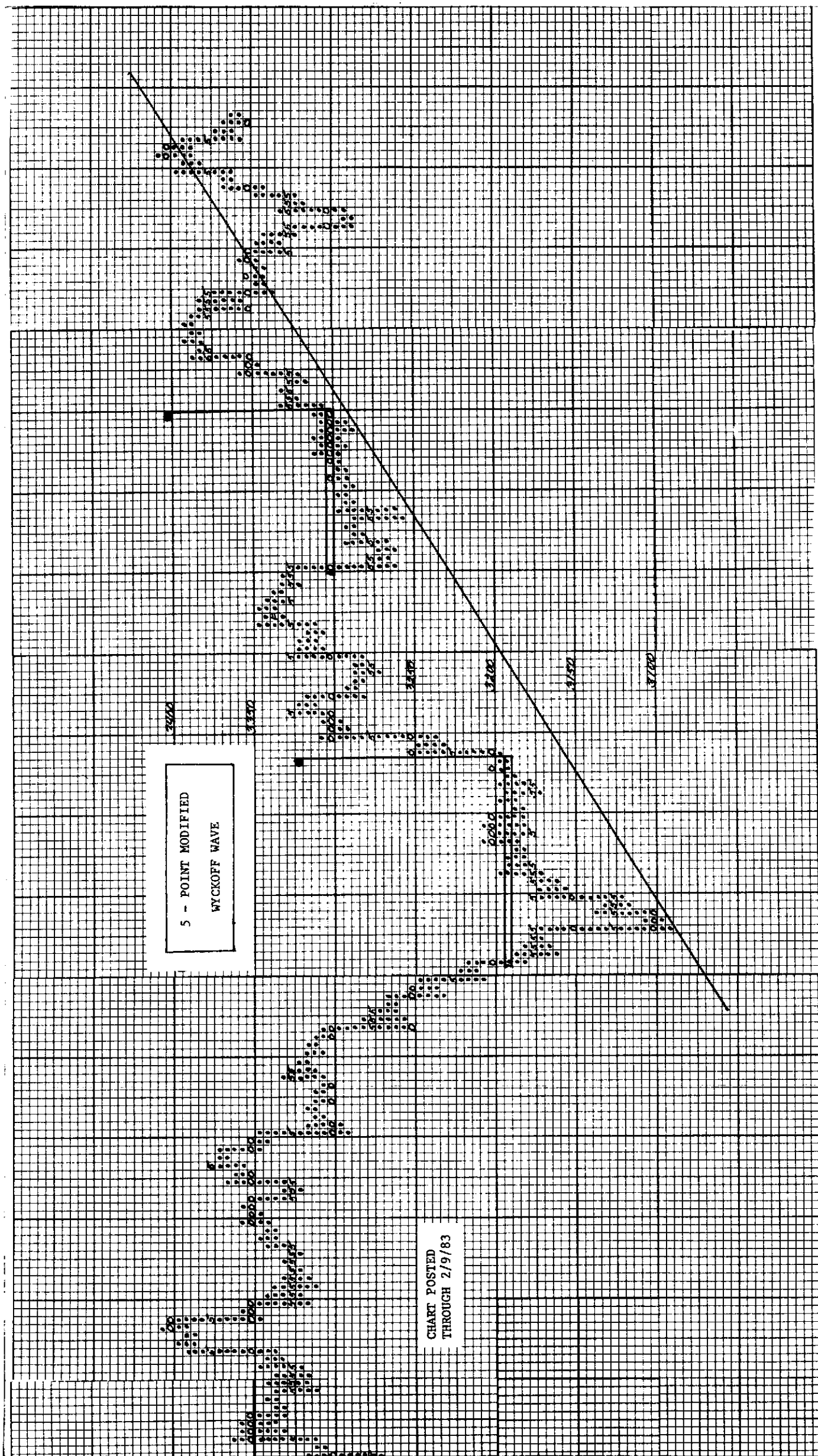


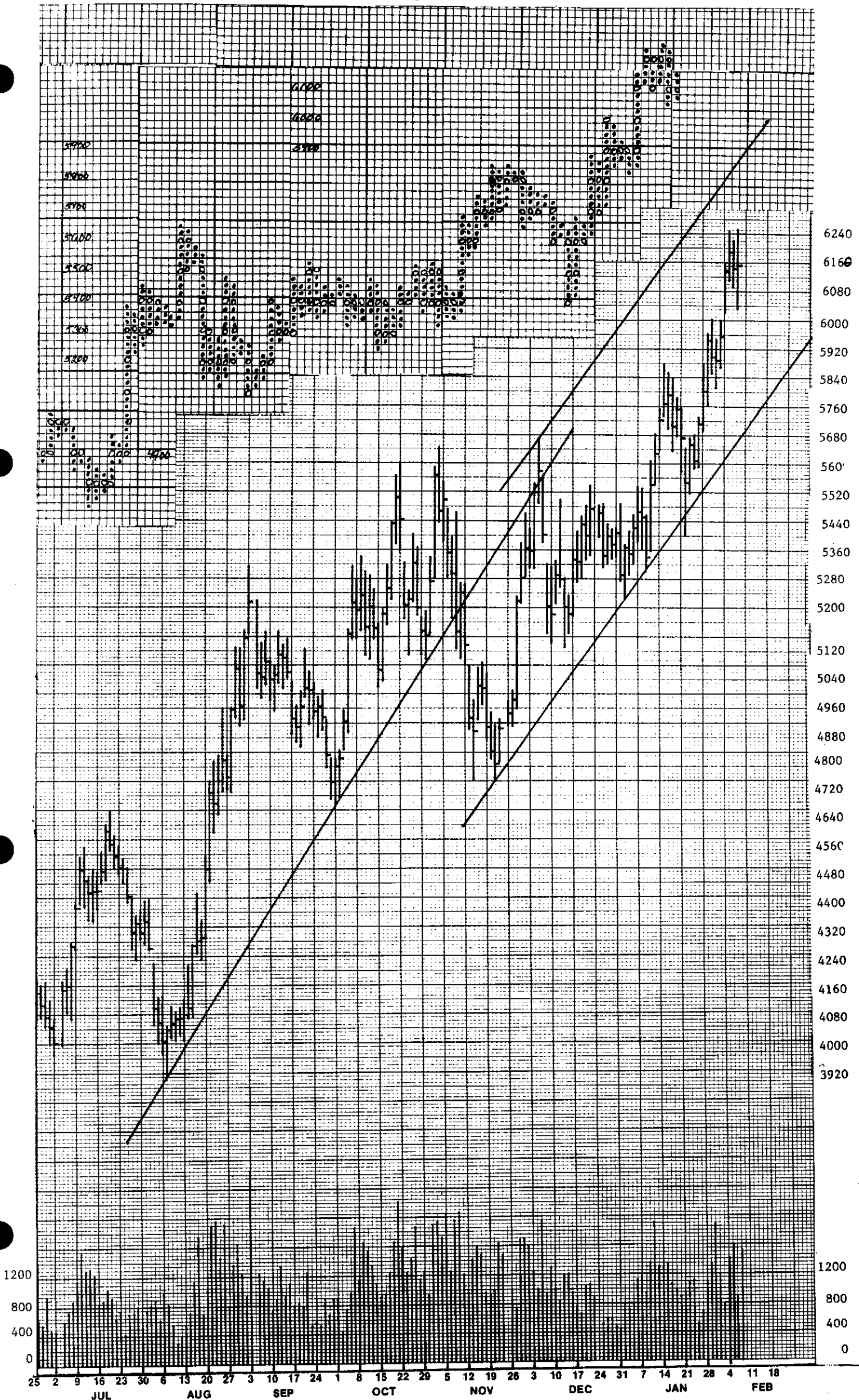


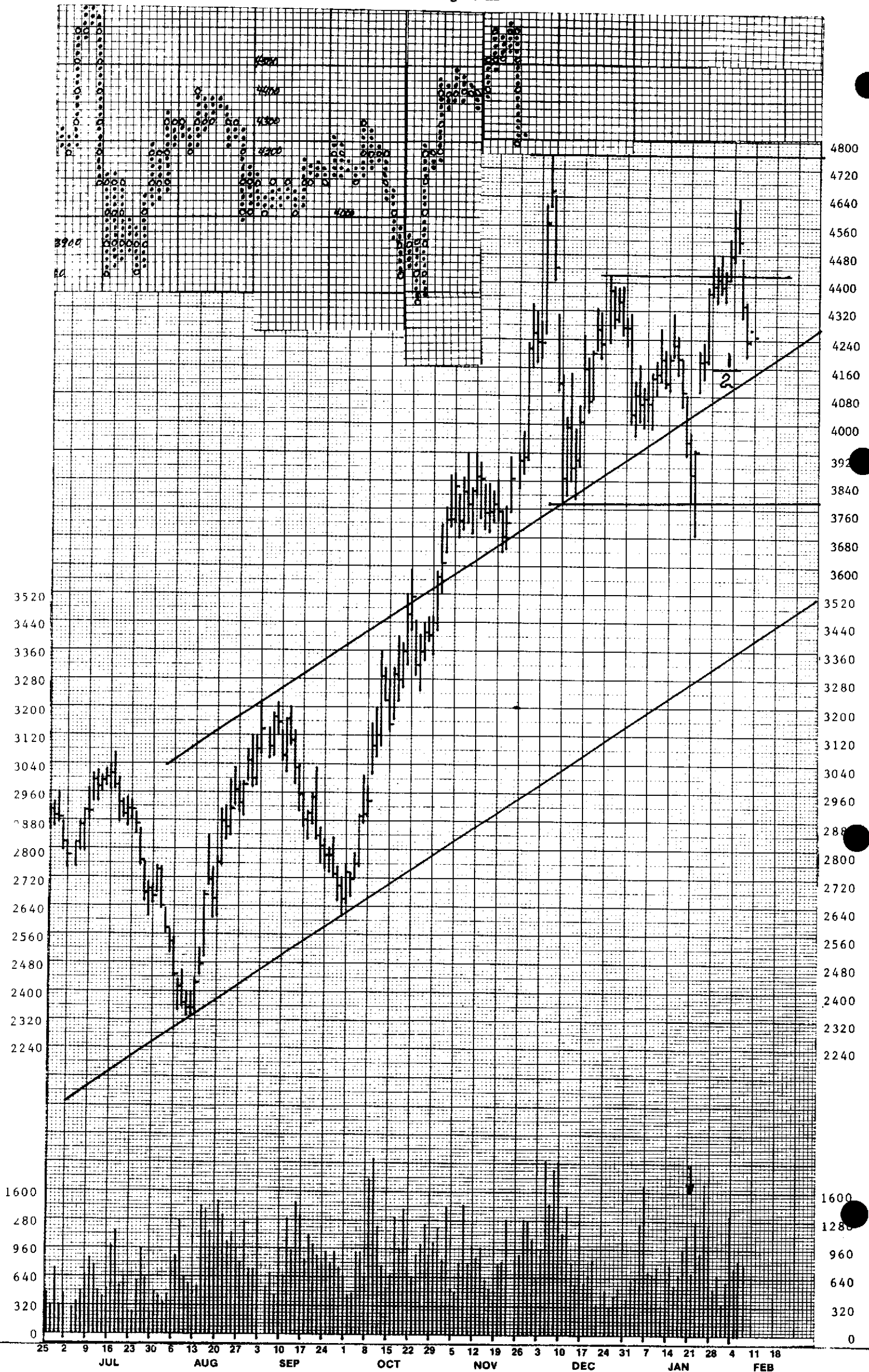


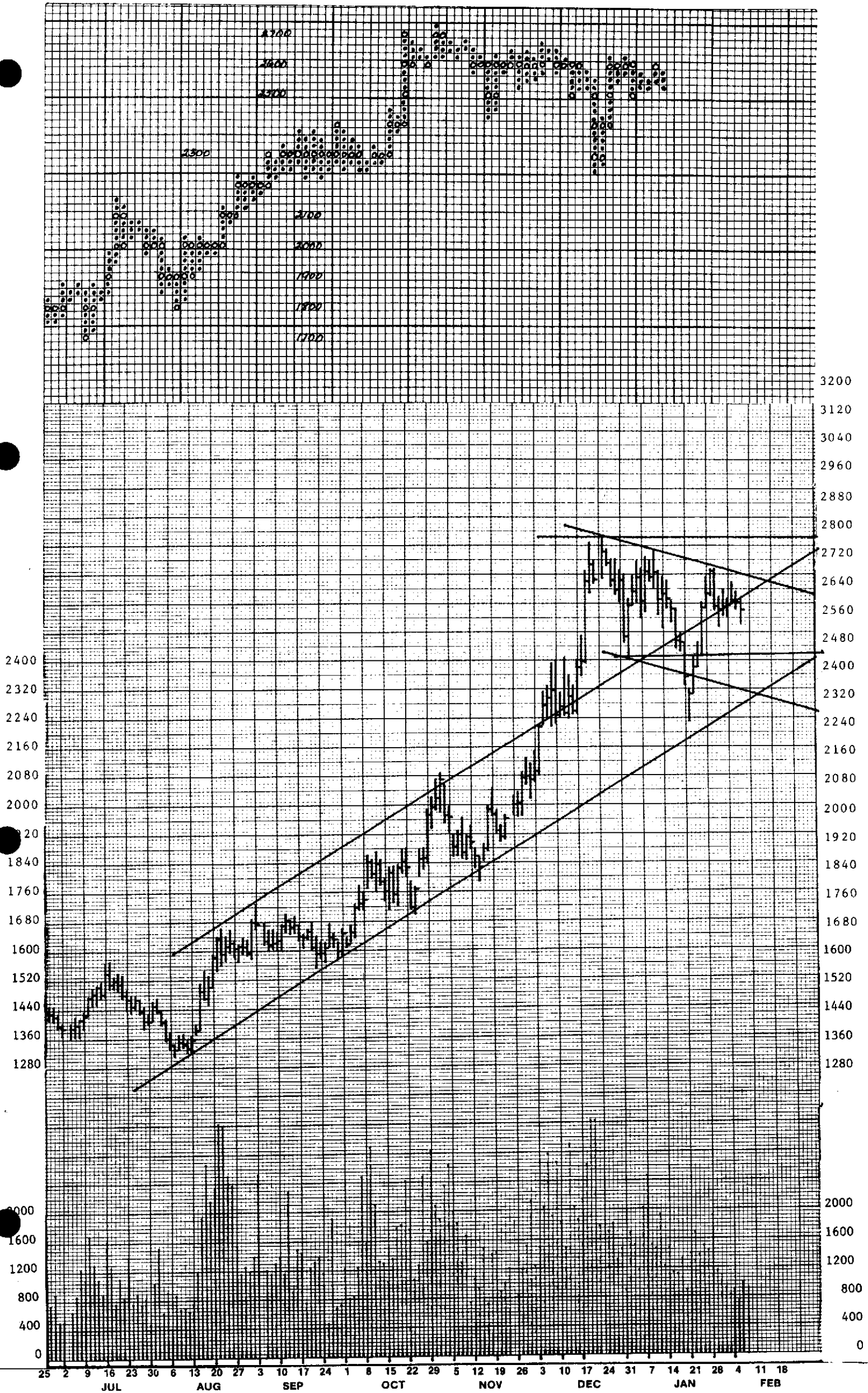














INDEX CHARTS

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BANKING GROUP
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