STOCK MARKET INSTITUTE
Founded in 1931
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TRENDS AND TRADING RANGES

Tuesday, January 18, 1983

Although 1983 is less than one month old, we already know what the course of the stock market's action will be for the balance of the year. Due to the net advance during the first five trading sessions, history tells us that there is likely to be a net advance for the year. Unfortunately, history does not tell us what the magnitude of that advance will be, or what type of path will be traveled in achieving it. Also not accounted for is the fact that in the stock market history does not always faithfully repeat itself. Therefore, although we may feel we have important advance knowledge about the 1983 stock market, there is really a great deal more that we do not know. Since this ignorance is potentially fatal, we must continue to update our understanding of what the market is up to at the moment.

From a long term point of view, very little has changed in recent weeks. The Wyckoff Wave continues to hold on to a steeply inclined uptrend that under more normal circumstances would have long since been broken. Although this is another indication of just how strong the market continues to be, it is impossible to have any faith in the long term future of this trend.

In recent weeks, we have seen the first penetration of the trends support line. Most of the volume during this week came in after the low. Therefore, we cannot correctly say that the penetration came on increased volume. If anything, the increase in volume after the low should tell us that the trend is still not ready to be decisively broken. However, a penetration usually weakens the support and is often the first step in a trend giving way to the formation of a new trading range.

Another disturbing fact is the disharmony that appears to exist in the effort versus result relationship. An arrow has been marked on the weekly O.P. chart to indicate where the Wave confirmed the validity of the more aggressive uptrend. Notice that almost half of the total upside effort that has been expressed has gone into maintaining the more steeply inclined channel. However, it is apparent that far less than half of the total price gain has come during this period. This is inharmonious action, which calls for an important change. The question, of course, is what will that change be. The prevailing opinion at the moment appears to be that the change will be to a resumption of strong upside price progress. If this is to happen it will have to begin very soon. The Wyckoff Wave is being squeezed up against its demand line very hard. It is either going to have to explode up out of this position, or face another penetration of the support line, which could be the break that leads to the creation of a new trading range.

Those who are looking for a strong resumption of upside progress do have the indications of the longer term figure charts on their side. There is still the unfulfilled upside objective from the base of the entire advance which points to the 3575 area. There is also the possibility of a new and even higher upside objective from a count at the 3100 level. On both the twenty-five and fifty point chart, the target of this count is between 3700 and 3800. The market should be able to get to this area, but to better insure this it needs to get going soon. Continued volatility that results in little progress is usually not a positive indication.

From the weekly chart of the Wyckoff Wave it appears as though the only thing standing between the present level and the higher objectives is the fact that upside progress just has not been resumed yet. It is not that simple, however. On the daily chart we can see why upside progress has not been resumed. There are barriers that need to be overcome. Some are substantial.

At this point, there appear to be three important influences impacting on the market's action. One is positive and one is negative. The other can still go either way and that will probably be the real determining factor.

The positive influence on the market is the uptrend that is defined by the low on December 16 and the low on January 4. The upside objective indicated by the ten point chart is 3450 to 3540. This almost equals the objective from the twenty-five point chart taken across the base of the move. Since the potential appears to be in place and the path has been defined, additional advance should be possible. However, the present position in the uptrend suggests that the progress will be slow. Right now, the Wave is on the verge of entering an overbought position. This will work against big gains immediately. The Wave may gradually ride the overbought line to higher levels. However, it is more normal to see a correction and then another effort at progress later.

The negative influence on the market is the support line of the previous uptrend. After having been broken in December, the Wave has spent the past six weeks tring to reenter the trend channel. It has not been successful. We know that the market does not keep trying something forever. If success cannot be achieved in one effort, the market trys the other side. The continuing failure to reenter the prior important uptrend points to a continuation of trading range action that will allow the former support line to move out of the picture. This in no way eliminates the possibility of renewed progress later. However, we must remember that in a trading range anything can happen including the deterioration of a previously positive picture. For now, a continuation of trading range action and the new uptrend channel are compatible. Therefore, nothing worse than a neutral stance is in order.

The big uncertainty facing the market is the outcome of the current upthrust position. Even though we normally think of an upthrust as being negative, the validity of that negative conclusion is dependent upon the follow through. If the price drops back into the middle of the trading range or below, on continued heavy volume, it is negative. However, if the reentry into the trading range is shallow and the volume is low, the result is very positive. As of now, the market has done neither. This is the reason for the uncertainty. Guessing as to the outcome cannot be justified.

The shorter term uptrend has thus far consisted of two upward thrusts separated by a correction. The progress of the second thrust is well illustrated by the intraday wave chart and the five point figure chart. We can see from these charts that the thrust now appears to be over. It succeeded in pushing the Wyckoff Wave to a new high, which is a notable accomplishment, but little else seems possible at this time. Part of the reason for this can likely be traced to the poor preparation that preceeded the advance. The five point chart shows very little in the way of advance preparation before the rally began. As a result, the market has been forced to stop and build some additional count every few days. There is nothing wrong with this, but it makes it difficult to build up the kind of momentum needed to jump a creek, which is what many more bullish traders wanted to see.

The most recent count of any significance on the five point chart is the one that is building right now. Already, it can be measured as one hundred fifty points. Since there does not appear to be any bias in either direction at the moment, the count is likely to continue to grow in size. With more growth probable, it is too early to take a count or determine a direction. Therefore, short term traders should be especially cautious. A wrong move now in this time frame could prove very costly,

There are an infinite variety of ways that the market can get from where it was on January 3 to the higher close that is now suppose to occur on December 31. Therefore, the buy and hold approach may not prove profitable in many cases. That especially appears to be true if the buying is contemplated for right now. There are just too many unanswered questions to allow this. If the market will confirm that we have seen the low for the year, or at least for an important part of it, we can buy. In the absense of that, however, attention should be given to the possiblity that it is the high that has been seen instead.

GROUP ANALYSIS

With the market still under the influence of a trading range, that rotation continues to make its way through the groups. Some recently weak groups have improved considerably. Others that have previously been strong appear to have fallen out of favor. However most, like the market, remain mixed in a trading range.

The aerospace group is entering a potential upthrust position. Therefore, it warrants careful attention. This possible upthrust position is coming after a shorter term uptrend, which replaced a more important uptrend, has had its support line seriously weakened. The important thing here in the days ahead will be the follow through on the upthrust. This is very similar to one of the developments we will have to be watching in the general market. The manner in which the group tries to reenter the trading range will give the best indication as to on which side the next trade in this group should be.

An apex is forming on the airline group. Therefore something of importance should happen soon. In this case, the answer as to what that will be is difficult to determine. In view of the sharp downward break a few weeks ago, the downside would seem to be favored. However, after that break, the price was unable to reenter the previous uptrend. This implies continued strength. One way in which this may be resolved is by another upside effort that is stopped by either of the resistance levels that lie above the current price. Such a failure would be a very negative development.

The auto group has finally started to show signs of moving into a trading range. This makes it one of the groups that has lost some strength recently. However, it is still much too early to know if this shift into neutral means a negative future. There are several important barriers to downside progress, so an immediate reversal in this group appears unlikely. The only thing warranted in this area by those who are already long is caution and perhaps some consideration of profit taking.

A group that has staged an impressive and rather unexpected recovery is the chemical. After breaking the prior uptrend and apparently confirming this fact in late December, downside progress should have come easily. It did not. An attempt to resume the decline failed to bring out volume and support was quickly met. The index has now rallied back to the support line of the previous uptrend and to the resistance created by the former high. It is also overbought on its short term uptrend. These factors work against continued upside progress immediately. Another test of the downside appears needed.

The computer group provides a good example of the potential power of a spring. In mid-December, there was a penetration of the trading ranges support level. This occurred on relatively high volume. When a spring comes on volume, we normally anticipate a test. This occurred in early January. Since then, the group has rallied strongly and now appears to be experiencing little difficulty in its efforts to reenter the uptrend channel. Since the general market seldom moves significantly against this group, a continuing strong computer group seems to imply no worse than a neutral general market for now.

An important resistance level seems to be the primary influence on the diversified group. In sympathy with the general market, this index has rallied strongly since the middle of December. Last week, the advance returned the price to the level of the previous top. Normally, these are the source of significant resistance. In view of the abrupt back off that we can see occurred in trading late last week, this group is probably at the end of its current move. It would be good to watch for another test of the resistance level on low volume. This could be the signal of an impending correction and a possible short term short selling opportunity.

The drug group, which is weaker than the market and which appeared headed for a good decline, has slipped into neutral and gone into a trading range. Careful use of the concept of relative strength and weakness may yield a few good intermediate short candidates. However, since the trading range appears to have taken control now, the group is probably better suited for shorter term trading with an emphasis on the short side. This emphasis is suggested by the relatively poor performance on the current rally in spite of an earlier successfully tested spring position.

An emphasis on the short side also appears warranted in the insurance group. In the case of the drug group, we saw a down trend giving way to a trading range. Here it appears as though that process is being reversed. After producing what can be seen as the test of a spring, the group has shown little ability to rally in spite of a significant increase in volume. This indicates supply. The fact that it has come in so quickly is a negative sign. This group may decline to 3150 and could go much lower based on a potential count across the 3500 level.

The machinery group is one of the formerly very weak groups that has rotated into a position of strength. The long term upside objective here is in the 1800 to 1900 area. This appears to be confirmed by a more recent build up at 1350. In order for the higher objective to be realized, however, the group will have to be able to survive its present upthrust position. This should be a good place to watch for a rapid drying up of volume on an attempt to reenter the trading range. A positive development like this should be a signal to consider long positions.

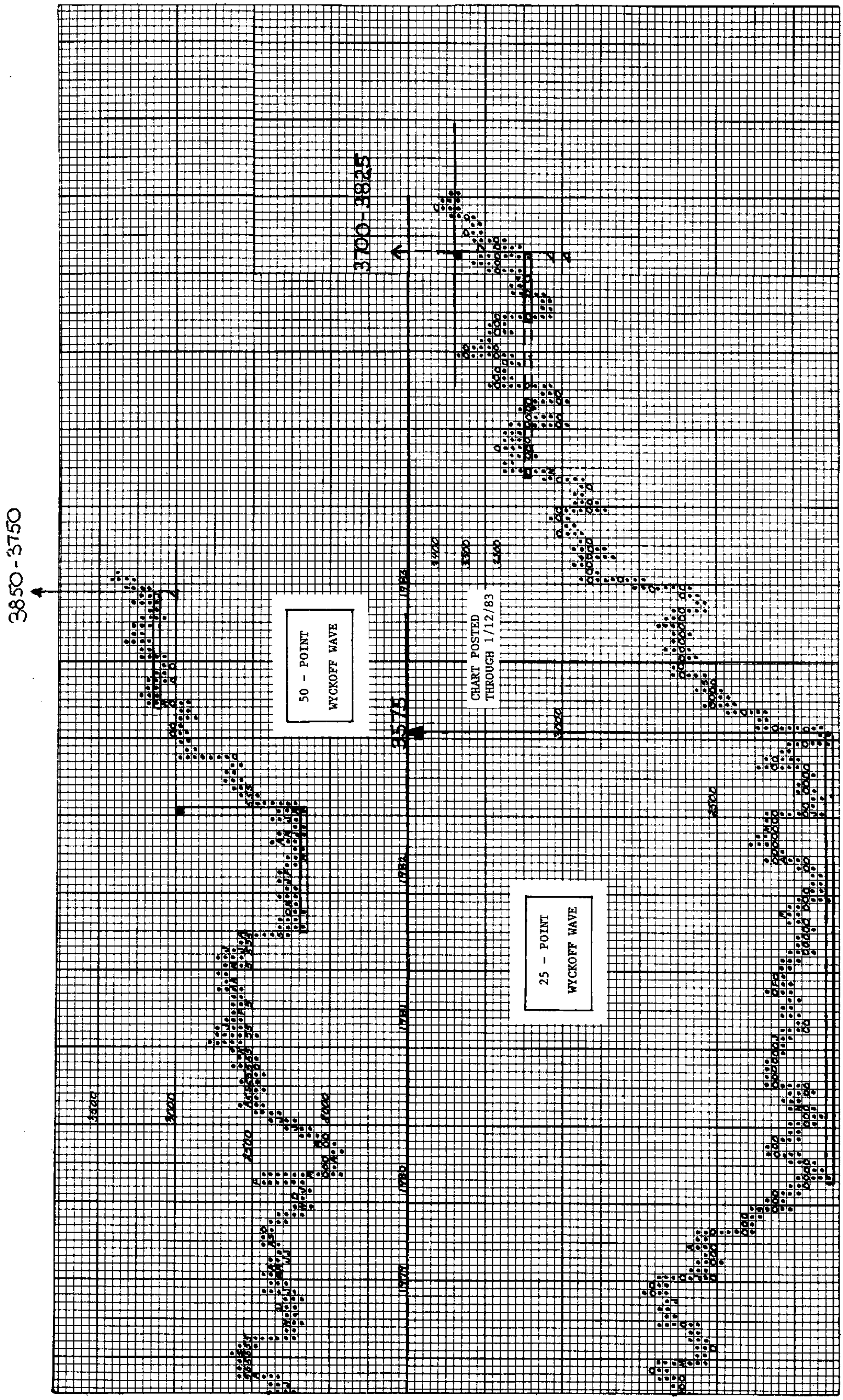
There is a possible change of character underway in the medical group. This had been one of the strongest groups. However, since the sharp break that occurred in December, the index has shown little ability to rally. A secondary resistance level has developed at 7520 and it in combination with a rising support line are forcing the index into an apex. Something of importance is going to happen soon. In view of the prior strength, a break on the upside should be in order. However, the weakness recently puts this in question. The resolution of this problem should come from the general market. The indications for its next move likely will be echoed in the medical group.

The office equipment group is one of the strongest groups. it survived a shakeout in December and has since resumed normal upside activity. At the moment, it is nearing an overbought position. Therefore, it should not be considered for new long positions at this time. However, the extreme strength discourages short positions as well. The best course of action here appears to be to do nothing. Let the group correct. If the correction is constructive, consider new long positions.

One of the groups that has received enormous public attention recently is the oil exploration group. It has defined a long term uptrend and an intermediate uptrend with in. Unfortunately, the index is currently positioned in the middle of both trend channels, so immediate position taking is unwise. However, a return to one of the support lines on lower volume as the general market becomes oversold may warrant action on the long side. Two phases of a count on the 2450 line have been consumed, but there are three more that can be used.

The oil group also has a long term and an intermediate uptrend. However, it also has a resistance level at 3700 and is currently well below that barrier. It also shows little likelihood of breaking out any time soon. The lower top that has recently been reached is a sign of continuing relative weakness. Therefore, as a group this does not appear to be a good area for a long position at this time.

The semi-conductor group has an intermediate upside objective of 7800. It has been able to climb back into its trend channel after making a rather serious penetration of the support. Ordinarily, a penetration of this magnitude is reason for concern, but the recovery since then appears to make such concern unwarranted at this time. This group should only be considered for the long side, but as with any good long candidate the consideration should be restricted to reactions and not strong rallies.


3850-3750
3700-3825
50 - POINT
WYCKOFF WAVE
CHART POSTED
THROUGH 1/12/83
3575
25 - POINT
WYCKOFF WAVE

INDEX CHARTS

STOCK MARKET INSTITUTE, INC.

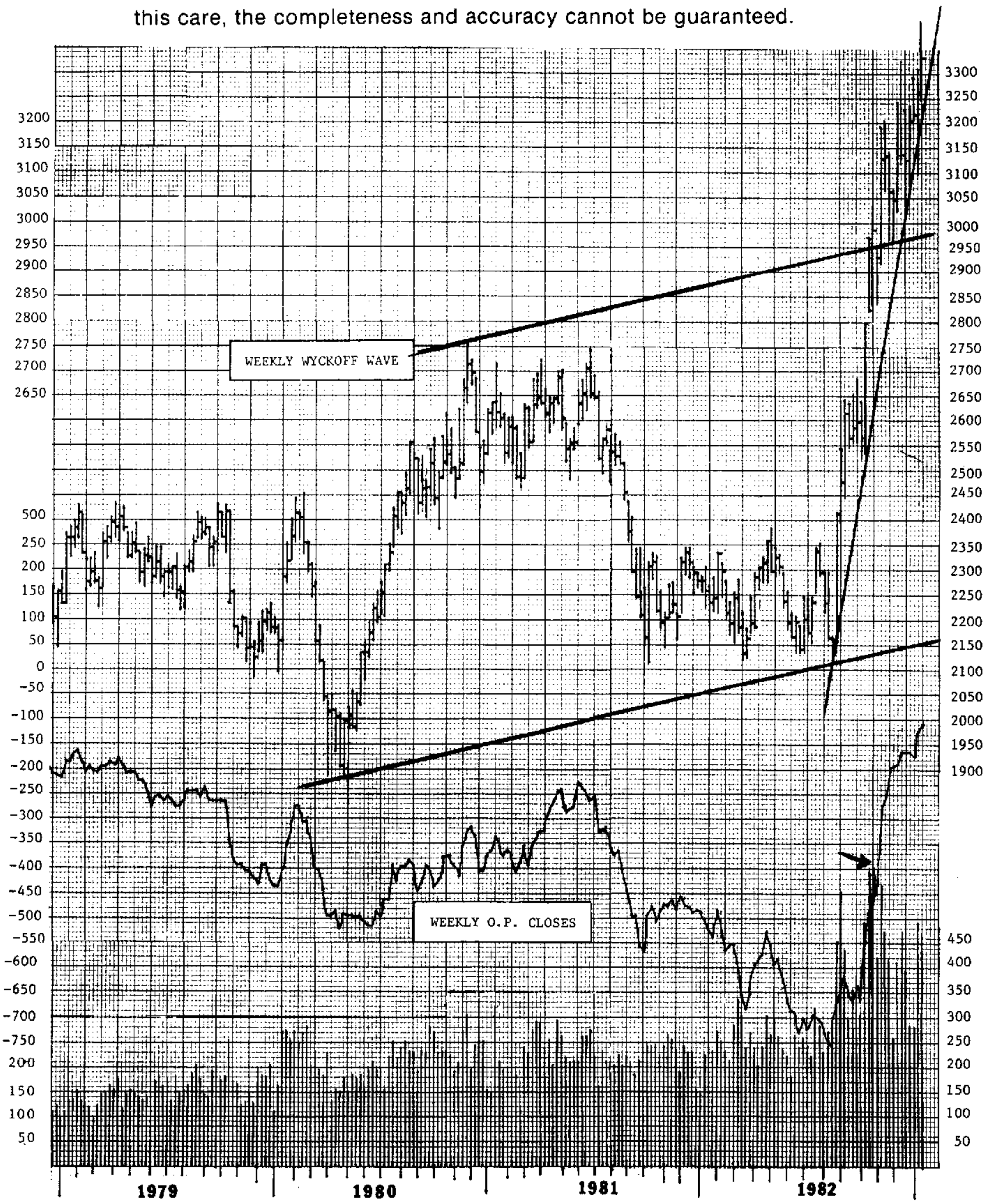
JANUARY 12, 1983.

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

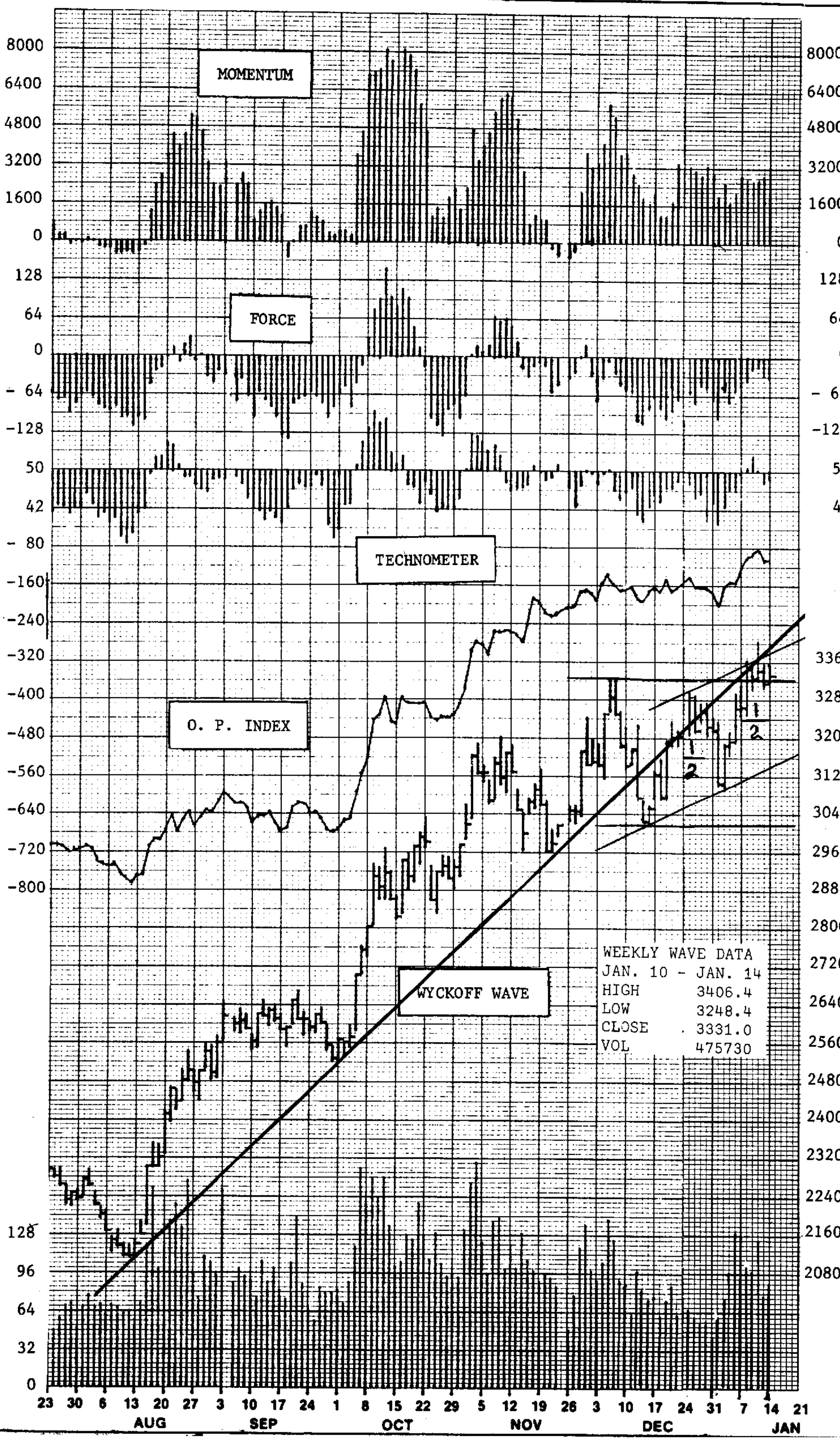
In our desire to insure the accuracy and reliability of these charts all statistical data is checked and cross-checked. However, even with this care, the completeness and accuracy cannot be guaranteed.



The Pulse of the Market

STOCK MARKET INSTITUTE

FRIDAY JANUARY 14, 1983



SMI **INDEX CHARTS**

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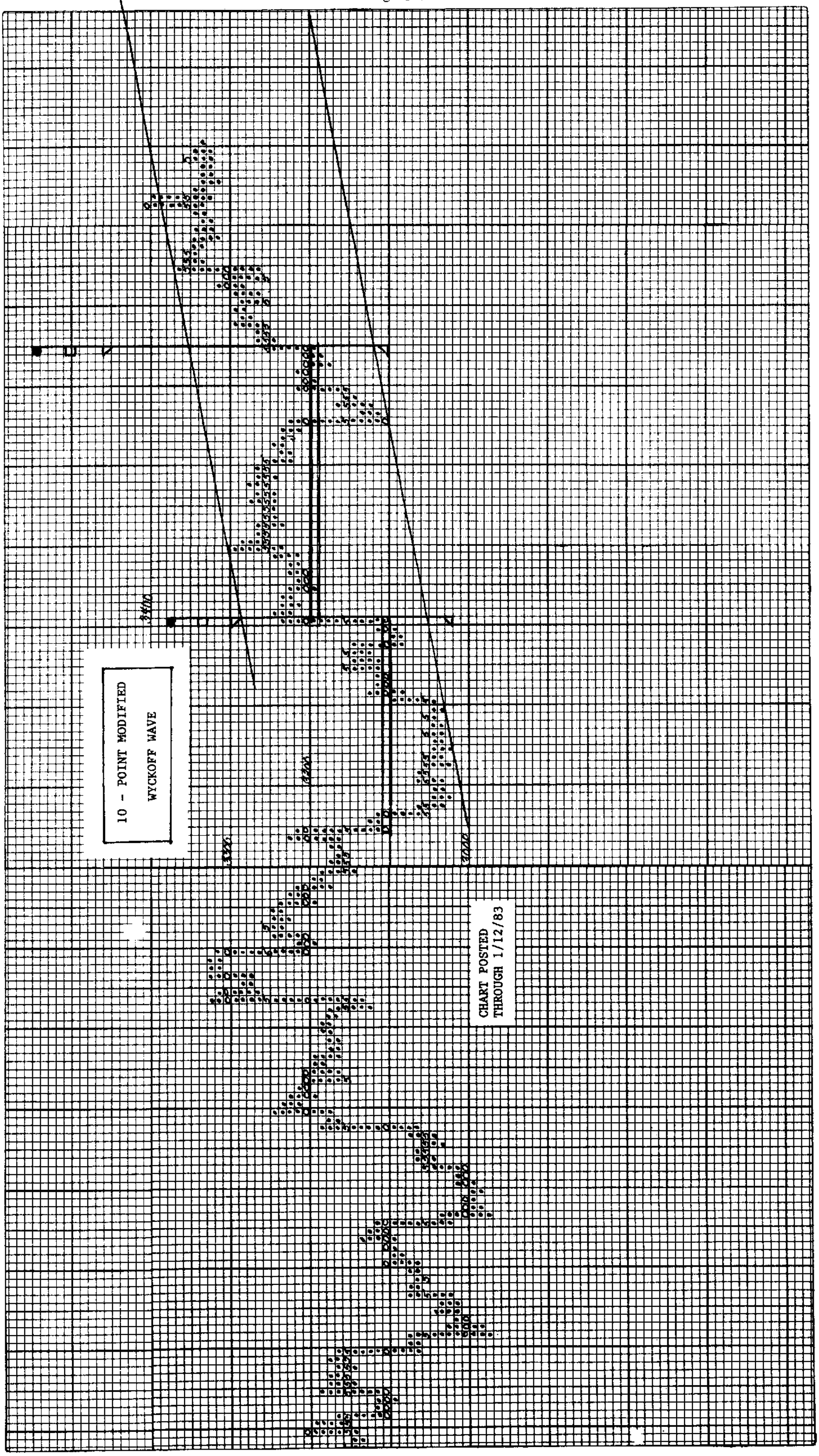

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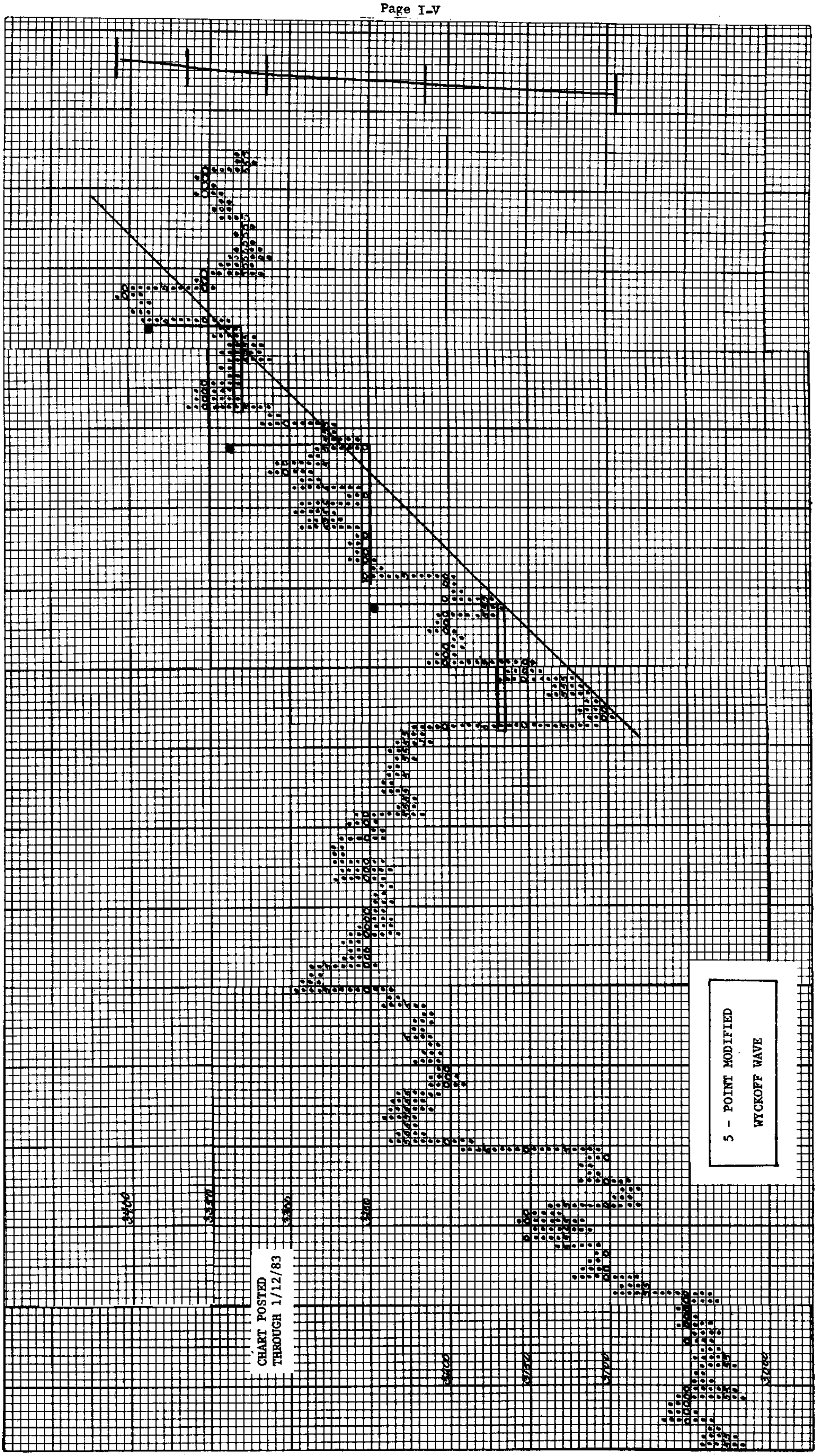

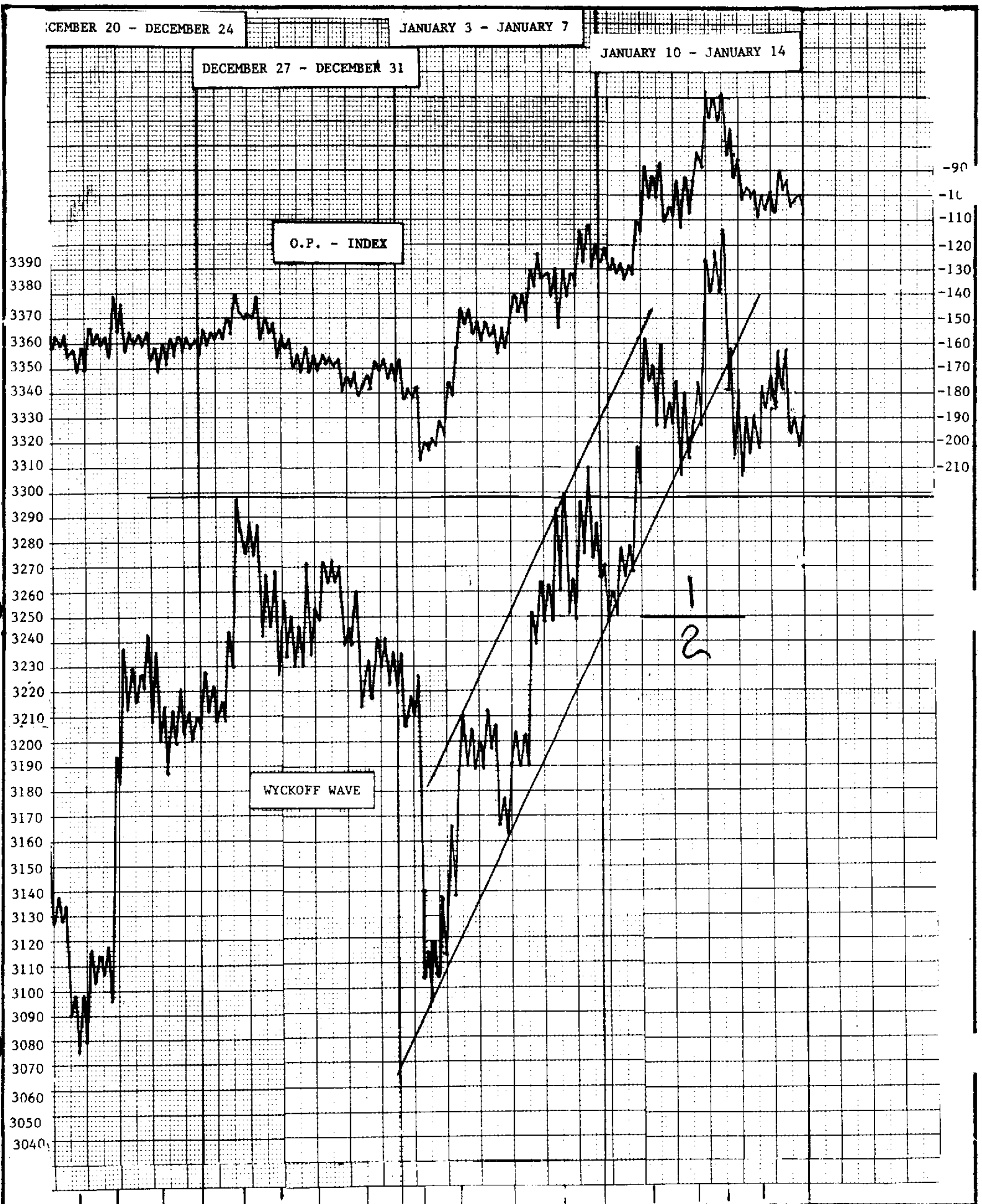
CEMBER 20 - DECEMBER 24
JANUARY 3 - JANUARY 7
JANUARY 10 - JANUARY 14
DECEMBER 27 - DECEMBER 31
O.P. - INDEX
WYCKOFF WAVE
3390
3380
3370
3360
3350
3340
3330
3320
3310
3300
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3250
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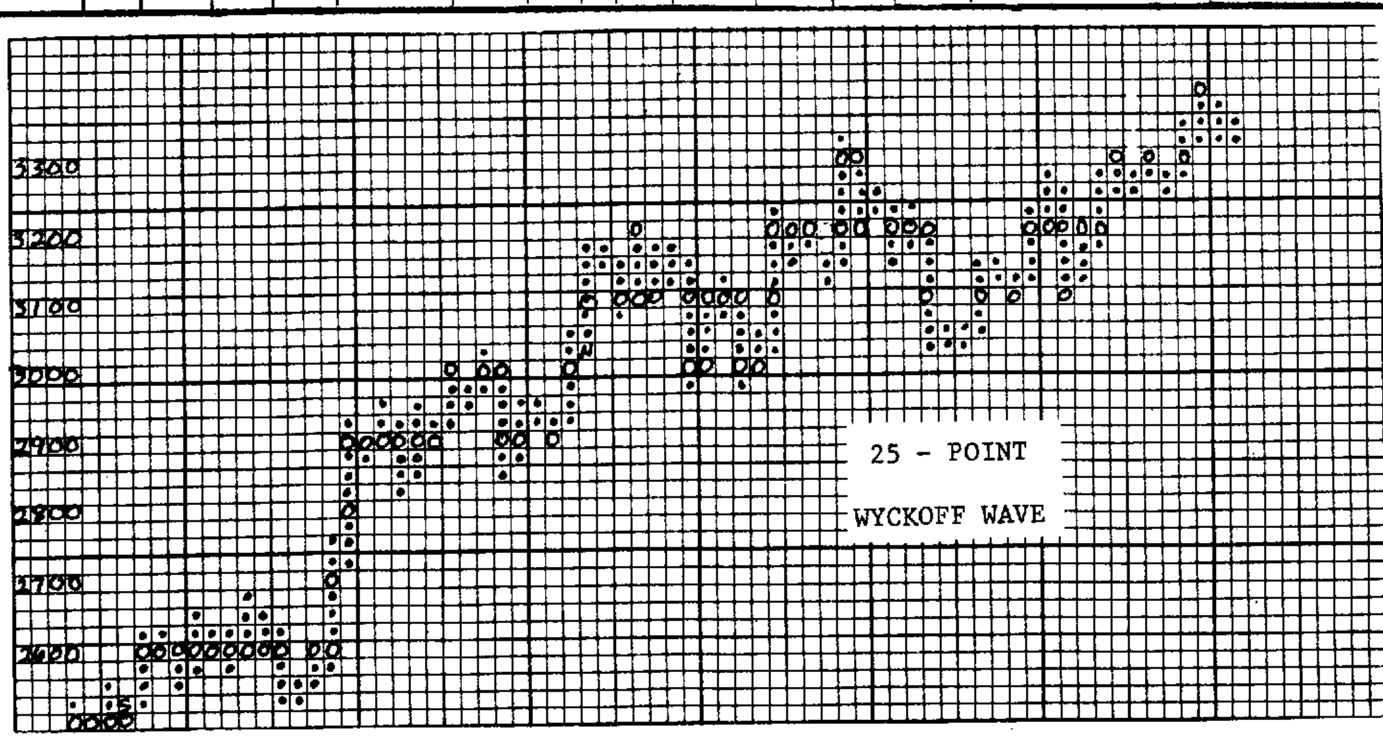
-200
-210
1/2


3300
3200
3100
3000
2900
2800
2700
2600
25 - POINT
WYCKOFF WAVE

SMI

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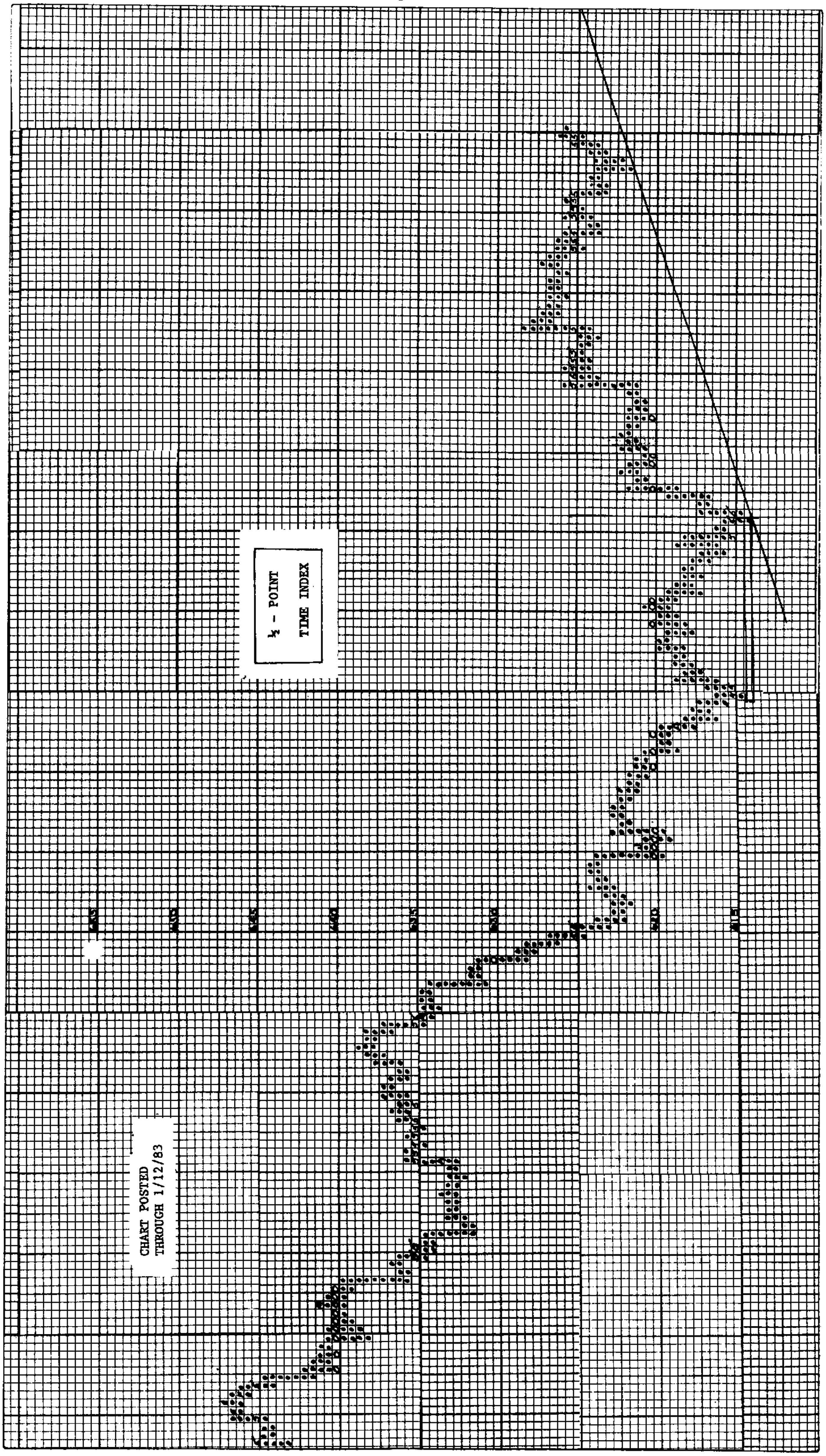

INDEX CHARTS

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AEROSPACE GROUP
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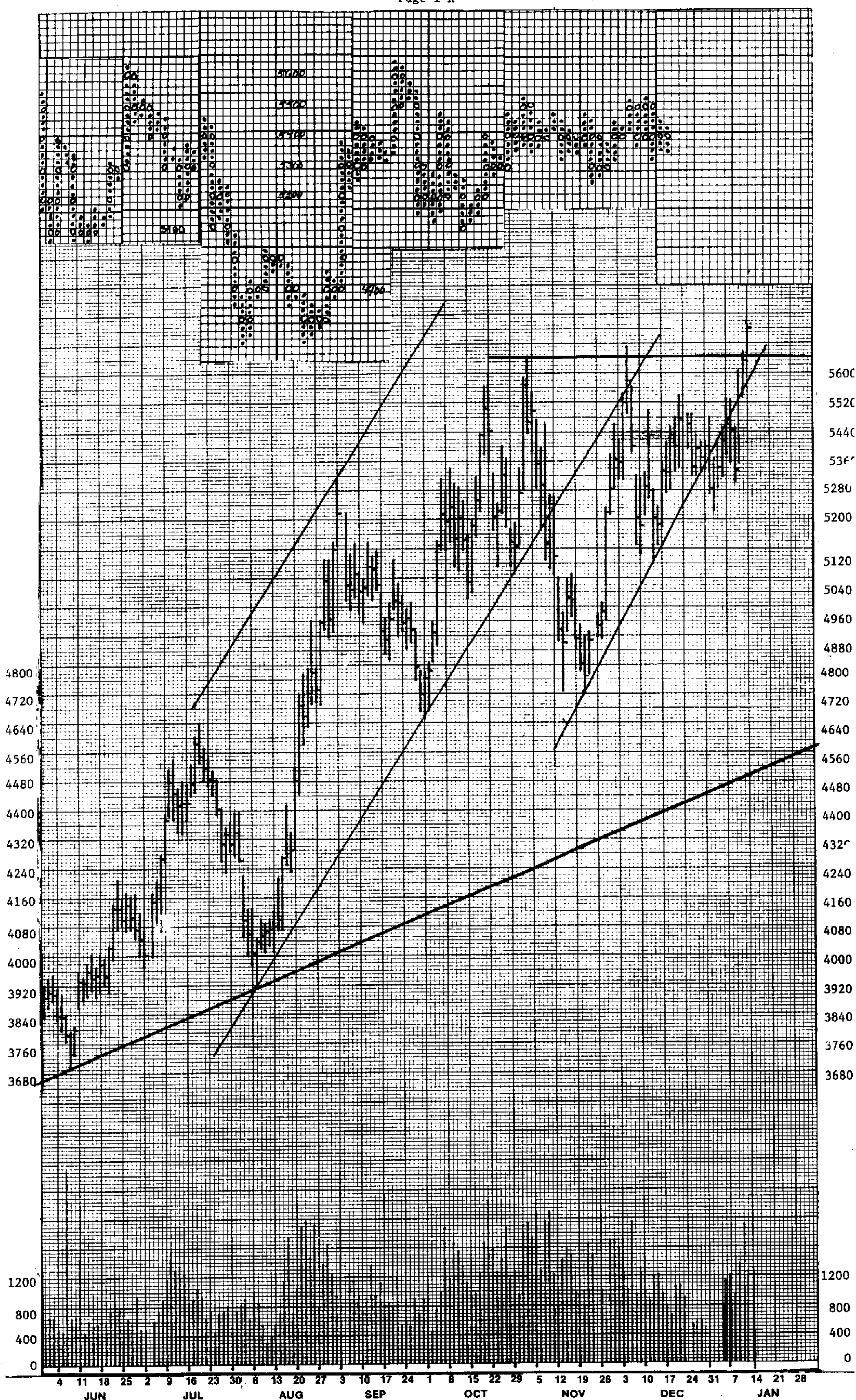

INDEX CHARTS

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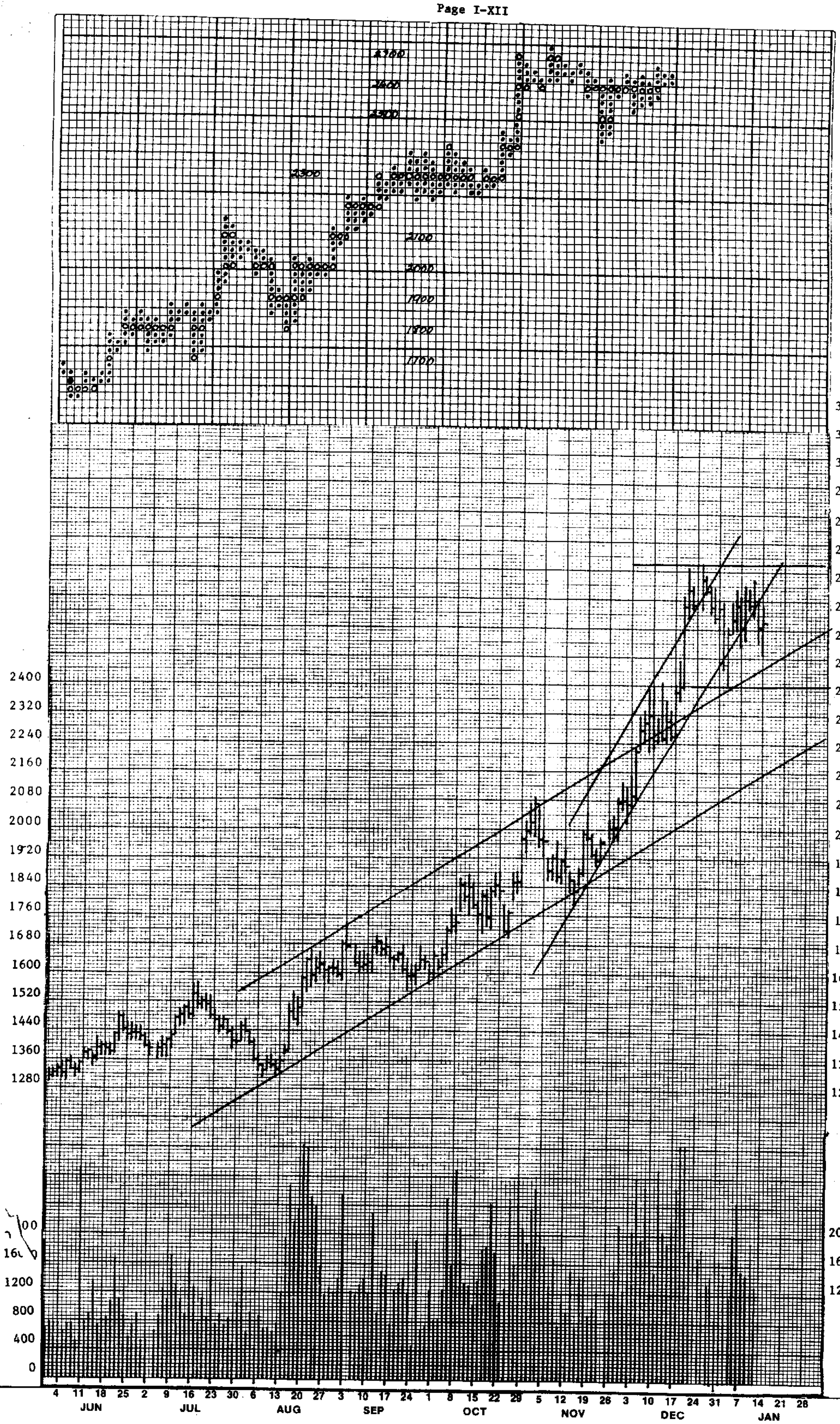
AUTO GROUP
6(11C+3F+2GM)



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

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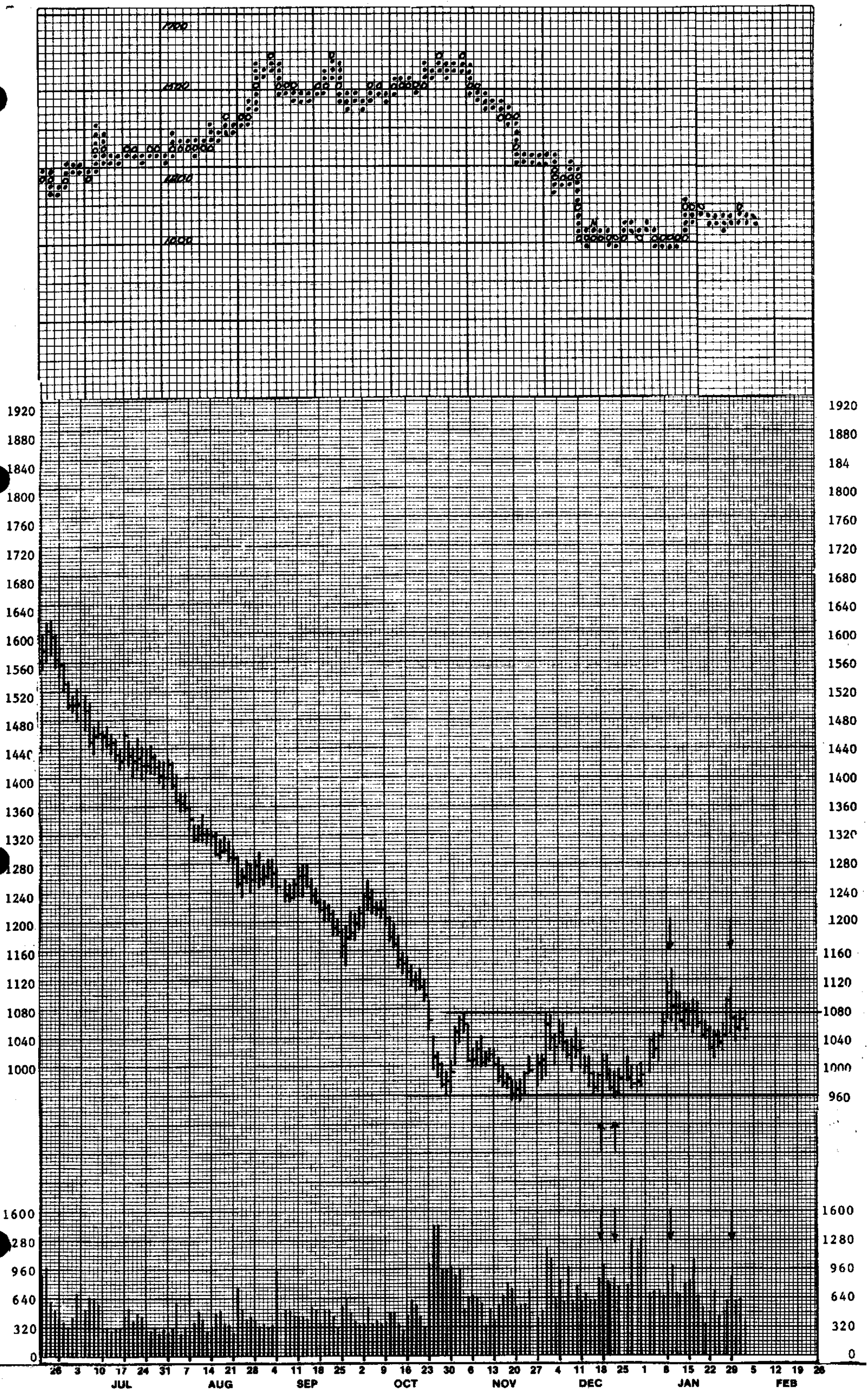

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BANKING GROUP
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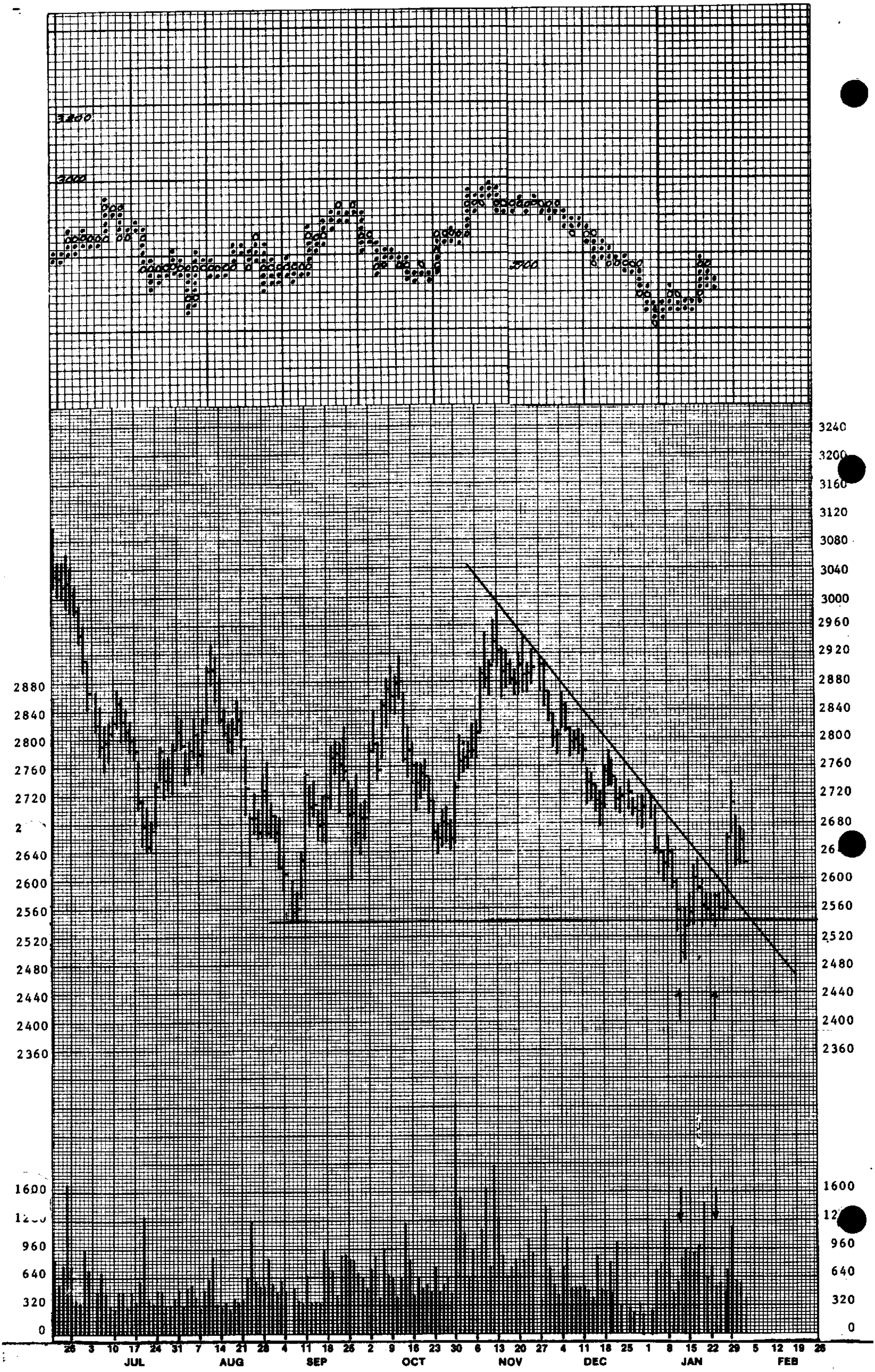

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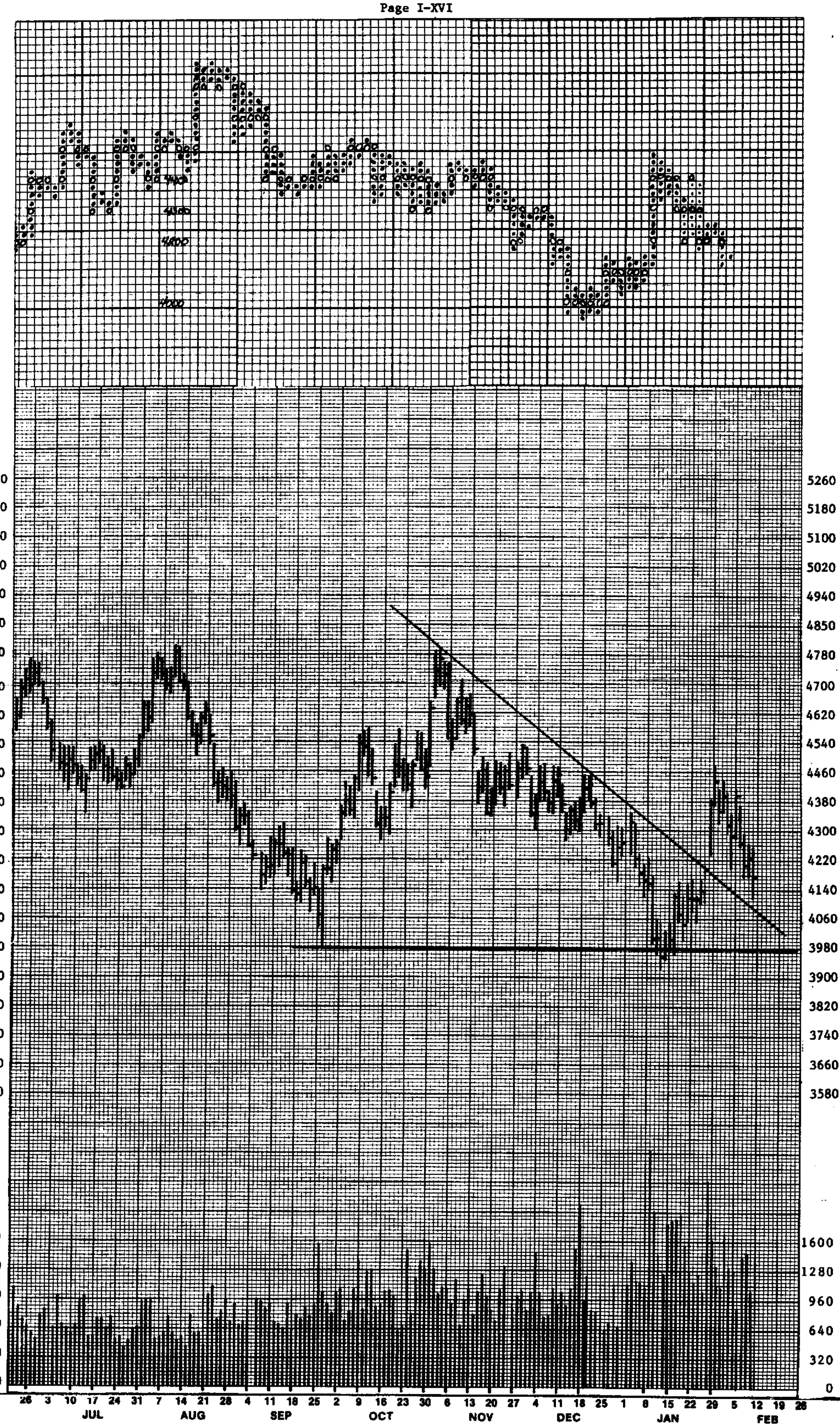
COMPUTER GROUP
1(40CDA+11DGN+12DEC+11HON+8IBM)



SMI **INDEX CHARTS**

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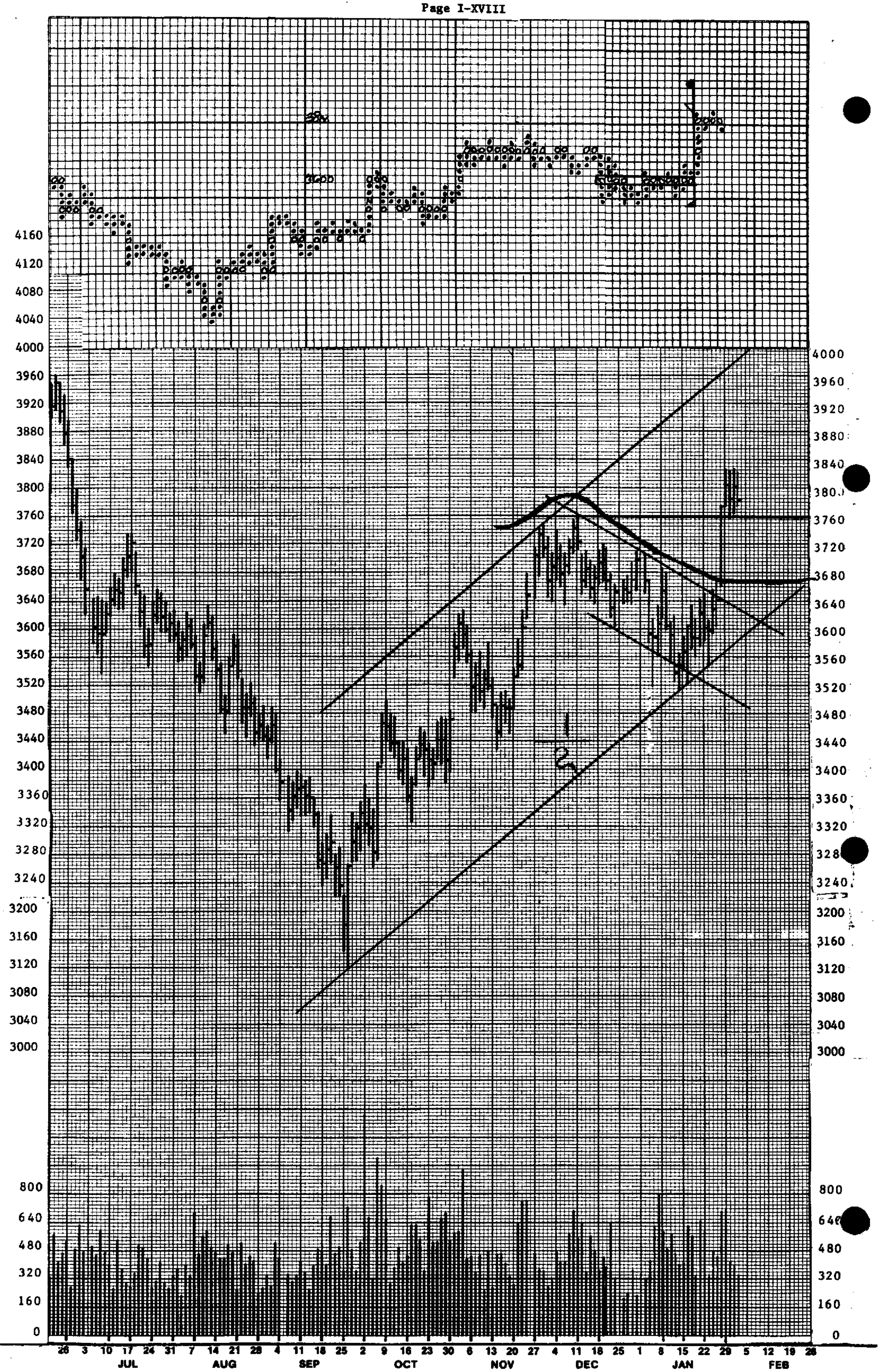
DRUG GROUP
4(4BMY+3LLY+2MRK+4PFE+3UPJ)



INDEX CHARTS

Stock Market Institute, Inc.

DRUG GROUP
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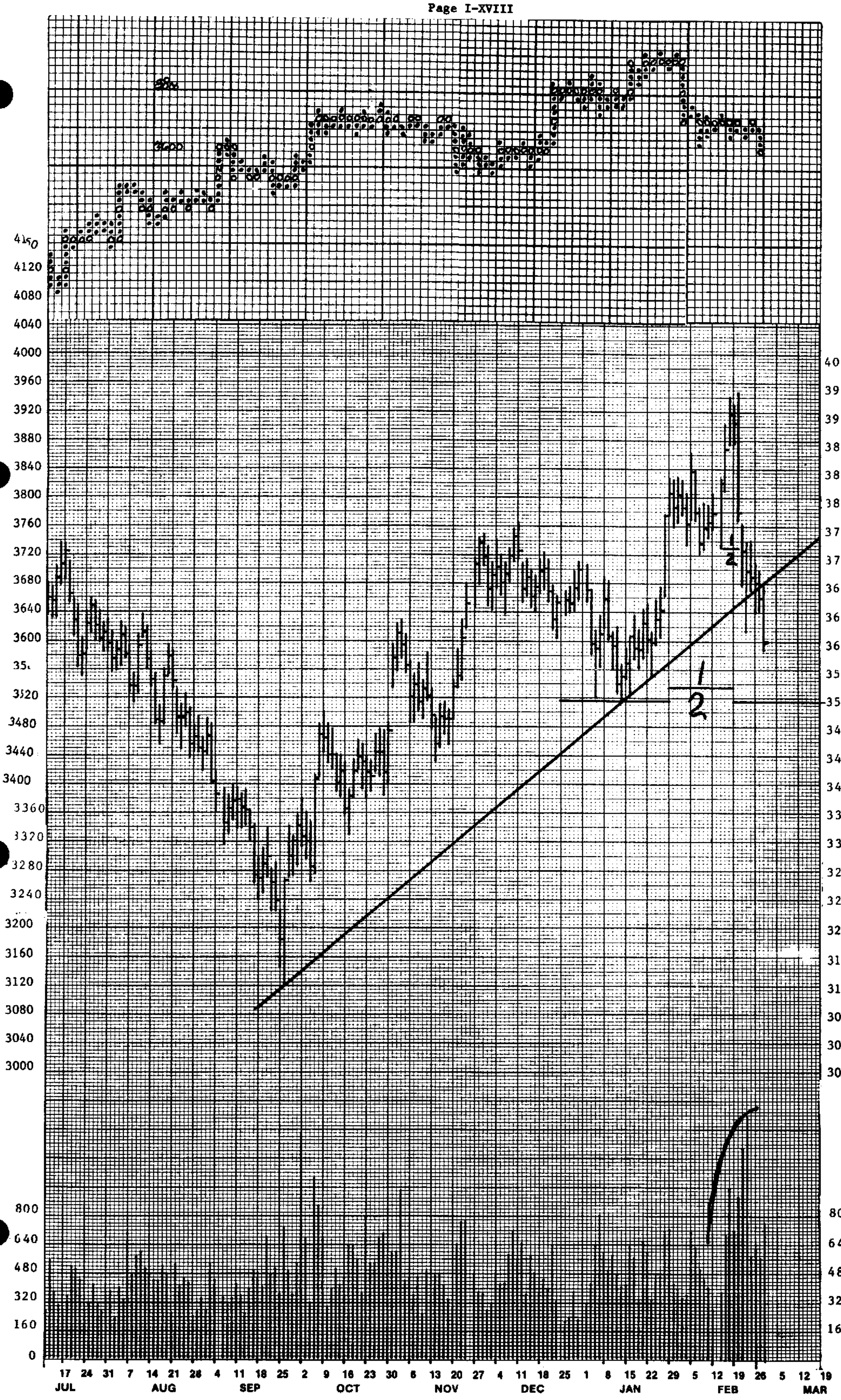

INDEX CHARTS

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ELECTRONIC GROUP
5(2GE+5WX+3TRW+4RCA+12GRL)