

TRENDS AND TRADING RANGES

Monday, November 28, 1983

Except when viewed from a short term perspective, the market now appears to have lost all sense of direction. This means that the wait for the market's next important move, which has gone on since June, is going to continue for a while longer. Therefore, intermediate and long term investors must remain very cautious about taking new positions. Unless a stock is in a clearly defined trading position with a count sufficient to justify the desired move and likely to get some short term assistance from the general market, no position should be taken. Existing positions may be maintained as long as the reasons for establishing them are still valid. Otherwise, they should be closed out because the risk is too great. Continuing to hold in situations like this represents a reliance on hope. The market does not recognize hope as a valid reason for a position. If it did, everyone in the market would be a consistent winner.

The long term picture of the market continues to be the most negative one. However, developments during the past two weeks have damaged what appeared to be an airtight case for a big correction beginning immediately. The damage has been done by the penetration of the supply line, which appeared to be taking control of the market away from the trading range. This penetration of the supply line weakens it and leaves it vulnerable to be decisively broken on the next rally.

With the supply line now in doubt, the apex becomes a more important factor. It indicates an important move sometime during the next two months. Since the supply line is now in a weakened condition, that move can come on the upside. Assume for a moment that it does. What will it accomplish? If it jumps the major creek at the top of the trading range, it will begin the second leg of the advance. The massive divergence that already exists between the Wyckoff Wave and O.P. argues against this happening.

If a break from the apex on the upside is unlikely to begin the second leg of the bull market, of what positive value can it be? The answer to this question is not much. Any advance by the Wave is going to worsen the divergence, which will make the market more vulnerable to a major correction. If it advances to the point of penetrating the 4180 resistance level, the divergence will be removed. However, a clear case of inharmonious action will remain and the market will be in an upthrust position. This would be extremely negative and call for the closest of stops on any existing long positions.

The way to give the market its best chance to begin the second leg of the bull market is for it to break the apex on the downside. What makes this positive is that it sets up the possibility of a spring of the entire trading range. Since the market has been unable to get anything going on the upside for almost six months, a spring would provide the best stimulus in that direction. A word of warning is warranted, however. If the market does spring and is still unable to break out following a test of that spring, the situation will be as negative as that which will exist if the Wave upthrusts the entire trading range. Although the penetrating of the supply line at least postpones a very negative future, it does not eliminate it. Therefore, it is advisable to avoid becoming too bullish no matter what happens unless a major creek is jumped.

The intermediate picture of the market is of a complex trading range. What makes it complex is the secondary resistance level around 3950. This area of resistance is almost exactly in the middle of the wider trading range. The result is a trading problem for anyone considering a short position. Whenever the Wave upthrusts the resistance level, which calls for a short sale, it is also in the middle of the trading range, which says to avoid any action. The way around this is to combine the degree to which the market is overbought with the upthrust position. If the market is clearly overbought, short the upthrust. If it is not, do nothing.

On Nov. 14, the market upthrusts the resistance level and was clearly overbought. Short selling could be justified. This past week, the upthrust was tested together with a relatively overbought condition. Although this may have discouraged shorting the test, it tended to confirm the wisdom of shorting the upthrust. Now that it has been tested, a count on the ten point figure chart indicates a move down to 3740. Potentially, the market could move much lower, but the longer term considerations work against that at this time.

A move back to 3740 is not really a move of intermediate magnitude. Therefore, any new short positions on the part of an intermediate investor seem unwise unless they actually represent adding to an existing position in a relatively weak stock. The desirability of staying with such positions will depend on how weakly they perform on the anticipated reaction and whether or not the market enters a spring position.

The anticipated reaction should be of interest to the short term trader. In addition to the previously mentioned reasons for expecting a reaction, there is a short term divergence between the Wave and O.P. This calls for an immediate downside response. It should be noted that if the Wyckoff Wave works out its short term down count it will make a new low. The O.P. may also make a new low. However, the odds seem to be against this considering how much farther and faster the O.P. will have to decline. Therefore, we may already be anticipating another divergence, which will point to yet another rally effort.

GROUP ANALYSIS

The aerospace group is stronger than the market. This is indicated by how close the index is to its prior high while the Wyckoff Wave lags far below its former top. The existence of relative strength makes the group a candidate for a long position the next time the market works itself into a buying position. This should come as the group corrects the current thrust in its uptrend. The need for this correction is indicated by virtue of the falling short of the overbought line on rallies. A halfway correction will take the index back to the bottom of the trend channel. It will also provide an opportunity to determine whether the apparent diminishing of demand indicated by the short falls can be complimented by the emergence of supply. If not, a position at the bottom of the trend channel will be a place to buy.

The airlines are stronger than the general market but not as strong as the aerospace group. This is indicated by the fact that the airlines are farther below their former. Due to the relative strength and the presence of a well defined uptrend channel this group may also be considered a potential long candidate. However, immediate action is not warranted. This because of the relatively overbought market and the position of the group at the top of the trend channel. Any buying should be postponed until the index reacts back to the demand line.

The auto group should be watched very carefully. This is especially true for anyone holding long positions. On October 17, the index upthrusted its former high. It tested this upthrust about ten days later and then dropped back into the middle of the trading range. A more recent attempt to get something going on the upside can be seen as a more important test of the upthrust. The effort produced a very negative result and provided the basis for a down trend channel. This group should only be considered as a short candidate for now. This will remain true until the index enters a spring position at the bottom of the trading range.

The banking group is also negative. In October, it fell through the support at the bottom of its trading range. This lasted for approximately two and one half weeks. During the past four weeks, there has been an effort underway to rally back from this reaction. At this point, the index has been unable to make up the prior decline and is running into resistance at the bottom of the trading range on declining volume. This appears to be a rally back to the ice. Therefore, existing positions on the short side should be maintained and new ones may be considered. At this point, there is no reason to give this group any consideration for the long side.

In September, the building materials group completed a halfway corrective rally of the previous decline. It then began to make downside progress again until early this month when the support level was able to stop the decline. This appears positive, but be careful. No spring position developed. Therefore, all that was indicated was a rally, which has occurred. Notice that this rally failed to bring out increased volume. Therefore, it is not possible to call it a sign of strength. Also note that the most recent action has put the index in an upthrust position. Therefore, this group should only be considered for positions on the short side. These may be as additions to long term positions previously established, or for the short term to take advantage of the anticipated reaction in the general market.

The chemical group is stronger than the market. It is also working its way toward the point of an apex. In view of the relative strength, the apex should provide the basis for getting the group going again on the upside. However, only buy if the market has worked its way out of the currently overbought condition.

The computer group is a candidate for the short side due to its downtrend. However, the present position discourages any immediate action. The problem with the present position is that it is too close to an oversold position to allow for any significant immediate downside progress. Before this group can be shorted it must either rally toward the top of the downtrend channel, or continue moving horizontally long enough to make some room for additional decline.

An intermediate uptrend and a longer term resistance level are battling for control of the diversified group. To this point, the action in the intermediate uptrend appears very constructive. If a problem is going to exist, it is going to develop from this point forward. The cause will be the resistance level. It appears to be stopping the upward progress, which causes the index to fall short of the overbought line. This indicates a lessening of demand, which means the uptrend is in trouble. Long positions in this sector of the market should be securely protected. It is too early to sell short this group because the demand line has not been broken.

The picture being presented by the drug group is quite positive. The current reaction is holding at the halfway point of the previous advance. This action can also be seen as a more important back up to the edge of a creek. What is needed now are continued signs of support as the market moves out of its overbought condition. This will give the index a chance to break the supply line of its short term downtrend. This in combination with an oversold market will make this group a good long candidate.

The electronics group is trying to move out of its trading range on the upside. The likelihood of success in this effort is small. It is clearly not a jump across the creek and the condition of the general market works against any breakout on the upside. The most likely development for this group is a return to the trading range. The best course of action for this group is to take no action.

During the past four weeks, the extremely weak character of the gold and silver group has begun to modify. The steeply inclined short term down trend has been broken. It has been replaced by a trading range, which serves as the fuel for a corrective rally of the move down from the 8400 area. It should be noted that this will be only a corrective rally in a longer term down trend and may be of no lasting significance. However, it is enough to be of interest to short term traders. Those with a longer term perspective should stand aside for now and consider shorting around the 7000 level.

The insurance group is in a well defined intermediate uptrend. The index is currently positioned too close to the overbought line to consider long positions now. However, its performance as the market moves out of the overbought condition should be monitored closely. If the index meets support at its demand line, it may be considered for the long side.

In spite of repeated springs and upthrusts, the machinery group has been unable to get anything going in either direction. There is no interest here. The group should be left alone for now.

Most of the time, there is a similarity between the drug group and the medical group. This is not one of those times. The drug group looks positive and the medical group looks negative. Due to a well defined down trend in the medical group short positions should be maintained. Consideration should be given to covering them only if the index moves into an oversold position. There is no reason to be long in this group.

The metals group has broken its recent short term down trend. This gives it a chance to resume its previous strong performance. As it rallies, two areas warrant special attention. They are the halfway point of the recent decline and the previous top. If either area stops the advance, the group should no longer be considered a good area in which to be long.

The office equipment group is in the middle of a wide trading range. It shows no indication of being ready to leave this range. Therefore, it is not a candidate for any action of an intermediate or longer term nature. Also, since the index is positioned very near the middle of the trading range, it is not a good candidate for a short term trade.

Both the oil and the oil equipment groups have been in down trends for a few months. However, indications are that these trends will be coming to an end soon. This is especially true of the exploration group where a penetration of the supply line has already occurred. Another important indication that the down trends are in trouble is the inability to react down to the oversold line. This means that supply is fading, which opens the door for demand to take control.

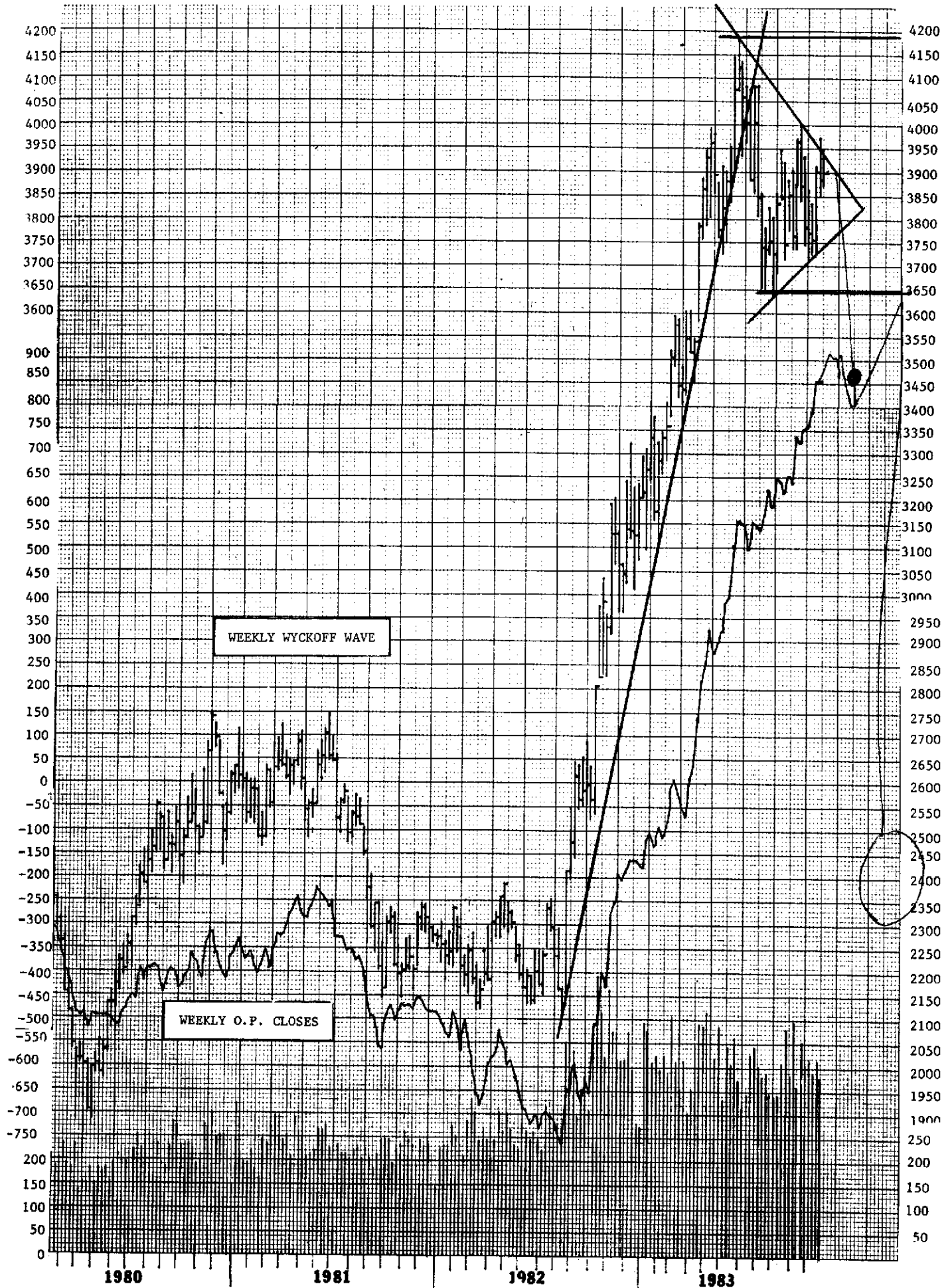
The recent rally in the semiconductor group can be seen as a more important test of the September upthrust. This provides more confirmation that the spectacular advance in this sector of the market is over. Consideration should be given to selling existing long positions. Consideration may also be given to taking a short position on a rally to the supply line of the newly defined down trend.

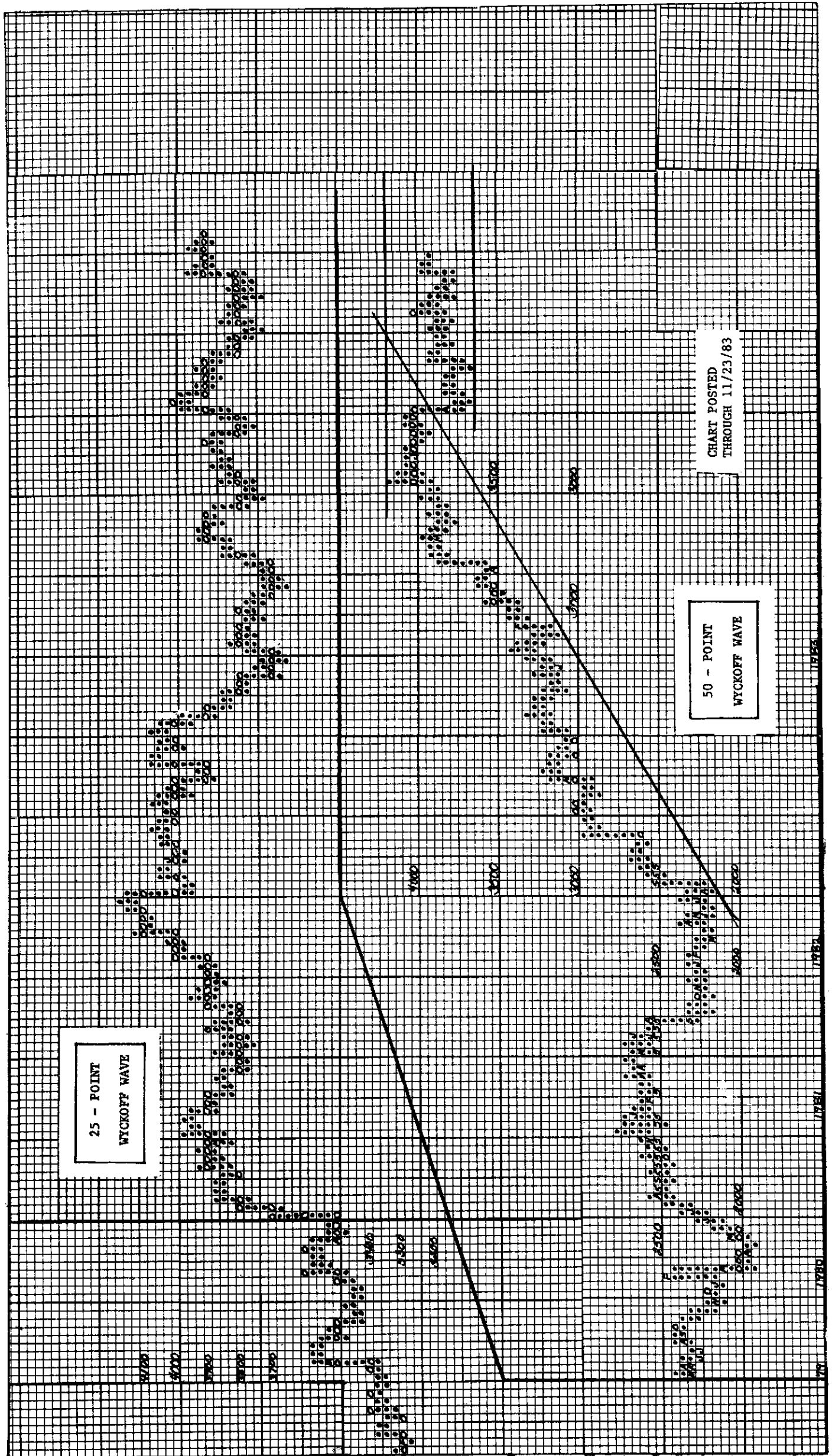
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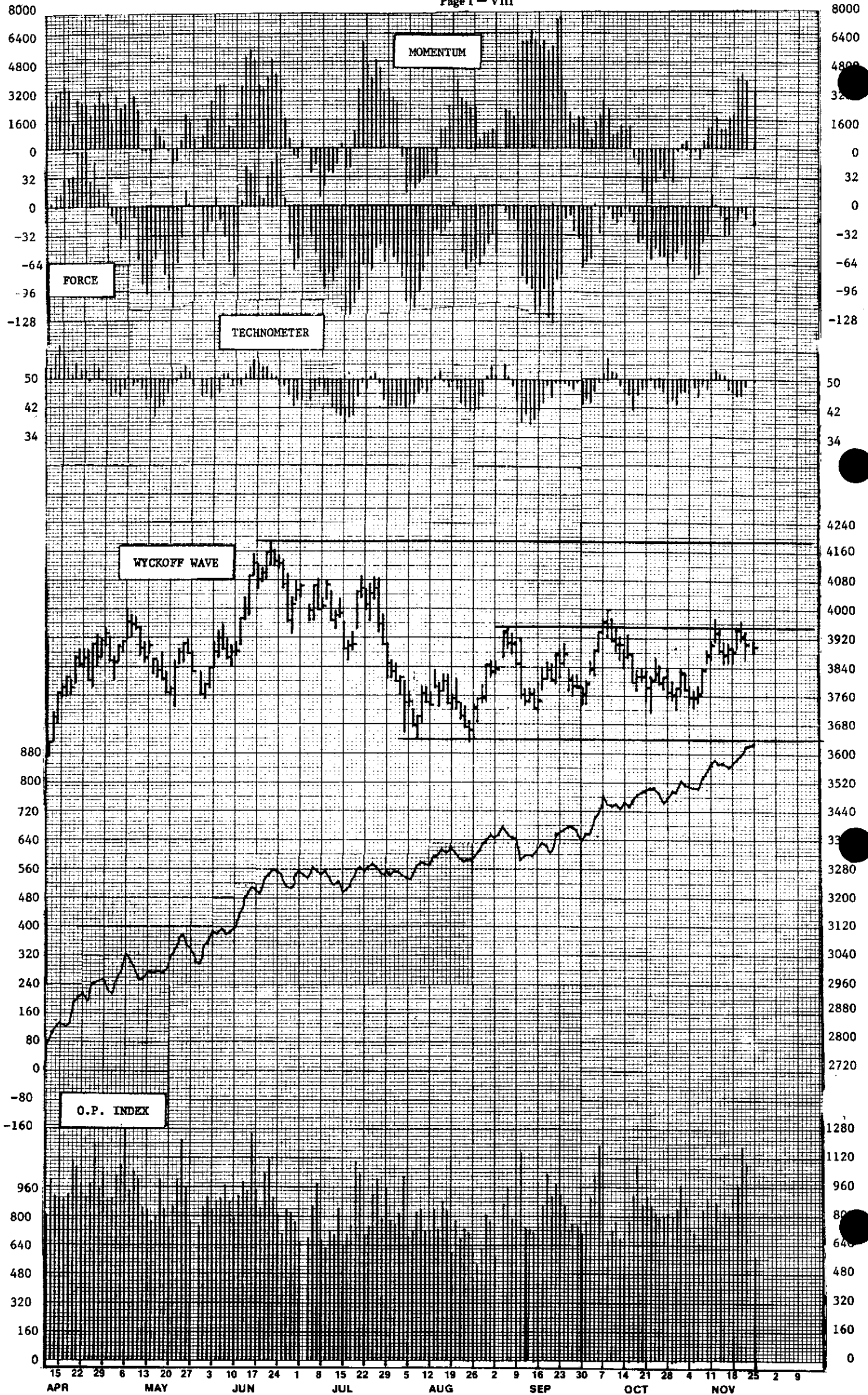
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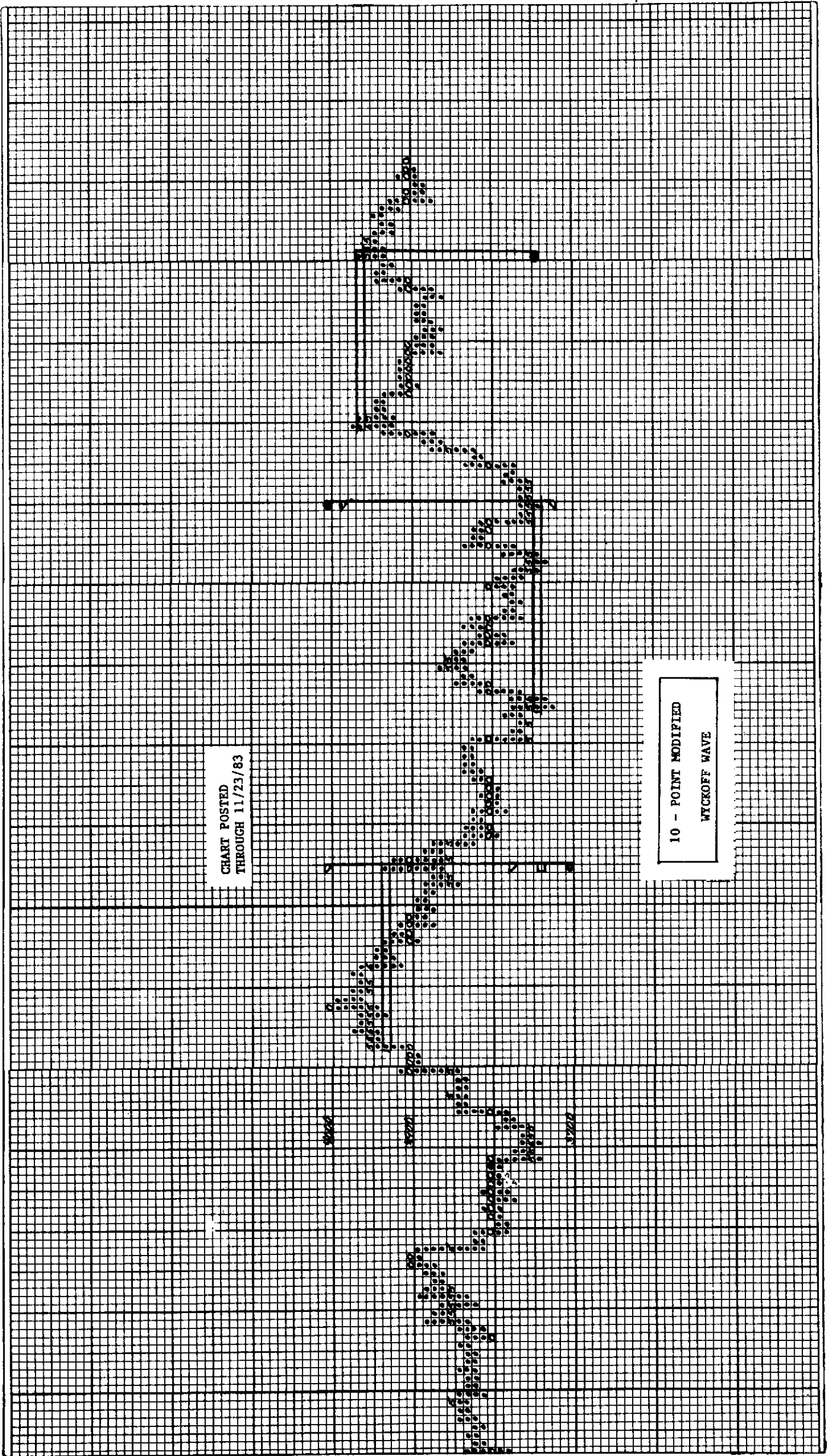
Weekly Wyckoff Wave	Group Indexes:	Electronics
50-Point Modified Wyckoff Wave	Aerospace	Gold and Silver
25-Point Modified Wyckoff Wave	Airlines	Insurance
3-Point of the 10-Point Modified WW	Autos	Machinery
10-Point Modified Wyckoff Wave	Banking	Medical
Two Point Modified O-P	Building Materials	Metals
1-Point Time Index	Chemicals	Office Equipment
Trend Barometer/O-P	Computers	Oil Exploration
Intra-Day Wave Chart	Diversified	Oils
5-Point Modified Wyckoff Wave	Drugs	Semi-Conductor

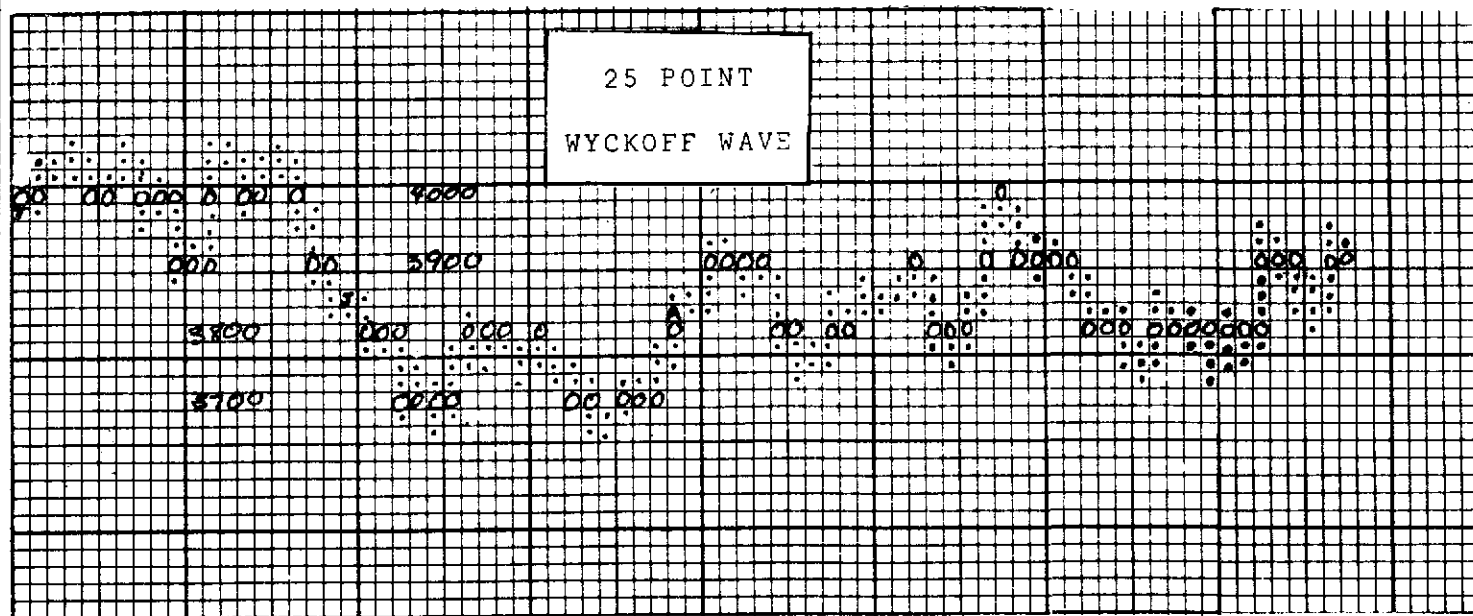
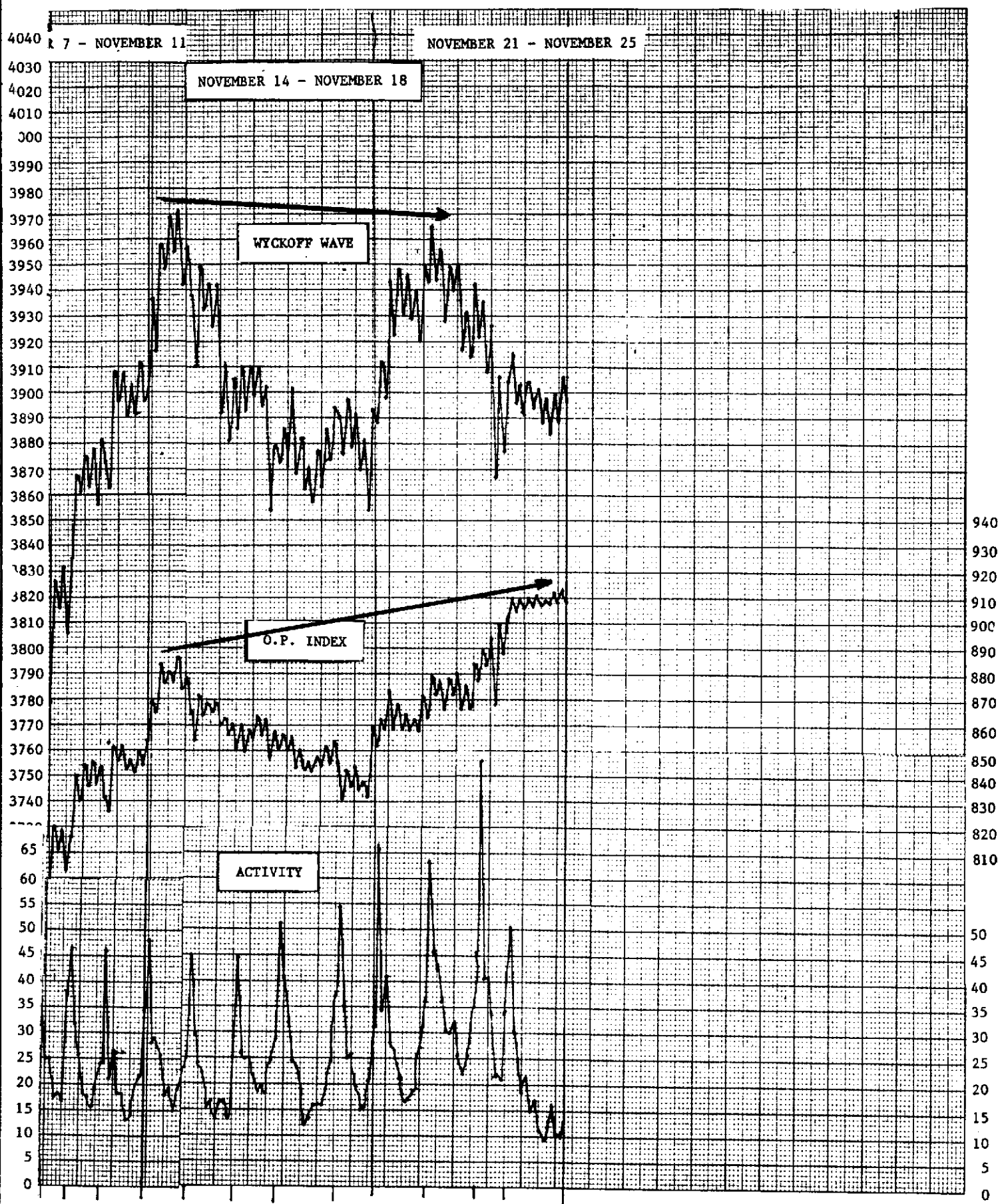
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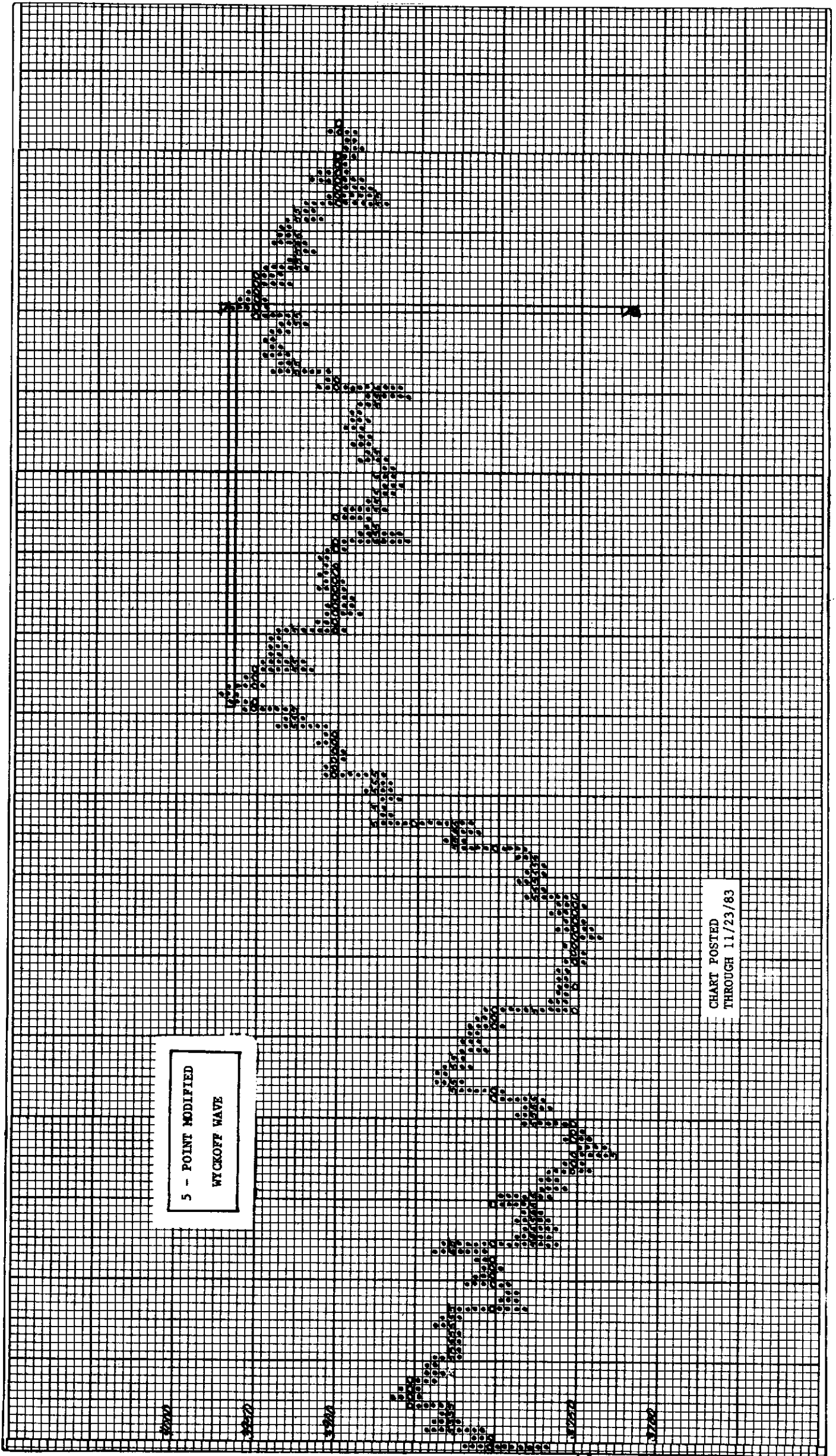














INDEX CHARTS

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AEROSPACE GROUP

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