



TECHNICAL ANALYSIS
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Stocks may be heading for a 10% reversal, history shows

A SHAREMARKET correction of more than 10 per cent may be looming in the post-crisis recovery, according to a technical comparison of the current market with the bear market recovery from the 1989 crash.

The similarities between the All Ordinaries Index over the past three years and the All Ords from 1989 to 1993 are striking, according to a director of the Australian Technical Analysts Association, Robert Brain, who is a private trader and consultant.

"Sometimes, by studying how things unfolded in the past, we

can gain a good insight into what might unfold next time around," he told BusinessDay. "If we study that bear market of 1989-93, we can understand one possible scenario for how the last bear market might unfold."

Mr Brain's chart shows a 30 per cent drop over 65 weeks in the All Ords from an October 1989 peak. This compares with the 54 per cent decline in the All Ords that started in October 2007.

Both the 1989 and 2008 declines resembled a classic five-wave "Elliott Wave" pattern, Mr Brain said. (An Elliott Wave identifies rhythmical

BEAR MARKET TWINS?



patterns in sharemarket performance.)

There are also similarities in how the two markets performed after hitting the bottom that provide clues to what the All Ords may do in coming months.

After reaching a bottom in 1991, the old market rallied 36 per cent then got stuck, fluctuating between 1500 points and 1696 points for 43 weeks. The current market has been stuck between 4500 points and

4907 points since September last year. "We are still in that trading range, which has been under way for just 29 weeks," Mr Brain said. "Over the next couple of weeks the All Ordinaries will either break out above

this trading range, or it will make a third attempt at breaking out before possibly falling away."

The old market tried three times to break through 1700 points before dropping, while the current market is now on a third attempt to break through 5000 points.

After correcting in late 1992, the All Ords rallied 71 per cent to reach 2340 points in February 1994.

"If our last bear market does end up panning out like the market of 1989, then we could be looking at a possible fall in the weeks ahead, and we will have seen 'bear market twins'," Mr Brain said.

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