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TRADING

Bargain hunting may still be a bit premature

TECHNICAL ANALYSIS
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THESE are trying times for investors and this week in Technical Analysis we try to give some insight as to where the current bear market is at. Robert Brain, national director of the Australian Technical Analysts Association, has provided two charts, one of the All Ordinaries Index since March this year and another measuring the Average True Range for the same period.

The ATR measures volatility in the market by averaging the market peaks and lows over the previous 14 days and presenting them as

points on a graph. What we see in the All Ordinaries is two periods of downtrend that started on April 11 and indicated by red lines on the chart. The first period ran to the end of July and our chartist holds fire while the massive market collapse of early August kicks in. Then he draws another line from mid-August to the present which shows a series of lower lows and lower highs giving another down trend even steeper than the first.

It is interesting to see how the volatility index accompanies what was going on with the All Ords. For the period from March to August the ATR sat at around 50 points or below. Then, as the market collapsed in August the ATR shot up to an average of 90 points,



probably because panic in the market led to a rush to sell, interspersed with periods of bottom fishing by the brave. The result was higher volatility that has held during the period of the second down trend.

But while the current market may be volatile, Brain

reminds us that in 2008 as the global financial crisis hit, the ATR was spiking at more than 360 and well above 400 points when Lehman Bros collapsed later that year.

Brain has superimposed the graph of the current bear market (2007 to 2011) on the graph of the bear market of

1989-93. Both bear markets roughly tracked each other.

But this has recently changed in ways that won't bring joy to investors now.

The current bear fell out of the consolidation range and headed downwards, crossing the previous bear that was moving upwards towards recovery at the same point in its life cycle. That, added to the marked downward trend, says there is probably more pain in the offing. And those wanting to go into the market now and buy bargains may find they will be even cheaper in coming months.

This column is not to be considered investment advice and those wanting to invest should seek professional counsel. rodmyr@ozemail.com.au