

How drilling down can find a stock with the traits you are after

TECHNICAL
ANALYSIS
ROD MYER

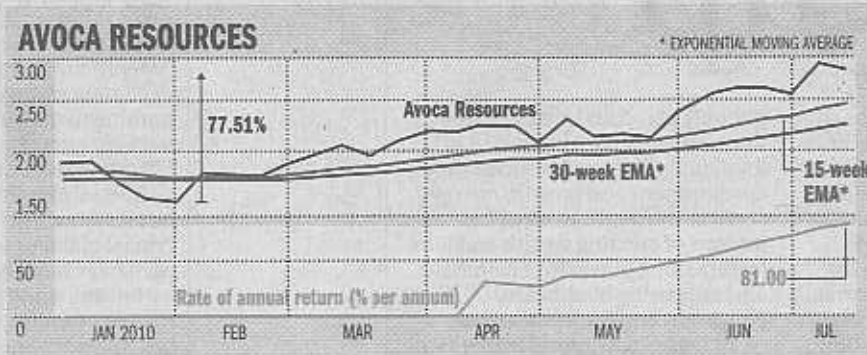
TECHNICAL analysis at its best is a highly systematic approach to investing and this week Robert Brain, private trader and a director of the Australian Technical Analysts Association, demonstrates how to use charting software to pick a potential investment target.

He went searching for a stock in an uptrend by feeding several potential targets into his computer and came up with mid-tier gold producer and explorer Avoca Resources. The Perth-based outfit produces about 270,000 ounces of the lustrous metal annually and has a big slice of exploration ground in the Kalgoorlie-Norseman gold belt.

Brain's wondrous technical analysis tools identified several factors he likes in Avoca. The stock price is going in the right direction, rising 77.5 per cent from lows early in the year. Both the 15-week and 30-week exponential moving averages (EMA15 and EMA30) are going up, with the EMA15 higher in value than the EMA30.

The fact that the EMA15 is at a higher value than the EMA30 indicates that the trend on the stock is gaining strength.

And the fact that both lines have been going up in a fairly gentle trajectory for many weeks gives added confidence of a healthy upward trend.



"Since early 2010, there has been only a handful of stocks in the S&P/ASX 200 Index which have been rising in this manner," Brain says. This is a good sign, but to consider whether the stock is worthy of further attention we need to consider

another of the many technical indicators available.

Today Brain chose the rate of annual return (ROAR, the bottom line on the chart). This measures the annualised price return in holding the stock and it has kicked up strongly since early

April, another good sign.

But Brain also provides a word of caution. "A common mistake is to jump on board a stock that has risen too far too fast. Avoca might just be in that category at present." So those wanting to exercise some caution could wait

for a little weakness, which could be indicated by a flattening or slight dip in the ROAR line.

And, he says, it is always good to use sound money management methods, which include placing an initial stop loss at a sound price point that will allow a timely exit if things turn a bit ugly. The aim of the game, he says, is to make sure to capture and retain profits while protecting on the downside.

As always, Business-Day and Mr Brain emphasise we are not providing investment advice and urge investors to seek professional guidance and do their homework.

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