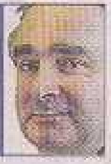
TRADING

Turn it up; JB is discounted but don't upload yet

TECHNICAL ANALYSIS
ROD MYER



JB HI-FI built a reputation on discount-priced electrical goods and no-frills, warehouse-style stores. But the slump in retailing has hit the company hard and some investors may be thinking the best bargain on offer is JB shares themselves.

In the past year the share price has fallen 52 per cent from \$19.52 to \$9.52 while the All Ordinaries Index is down about 7 per cent. Back in December JB shares really tanked after a negative trading update and have drifted down further since then.

So this week Rob Shelley, director of Total Trading Concepts and a councillor with the Australian Technical Analysts Association, casts his expert's eye over JB and asks whether it has got into buy territory.

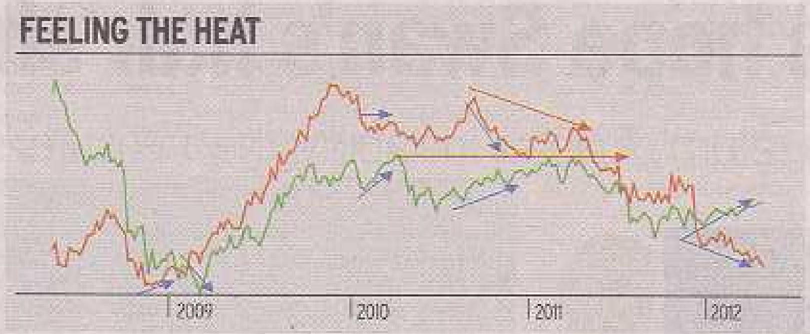
To answer the question we need first to look at what denotes that a stock is trading in relative strength or weakness. Strength, Shelley says, is indicated when a stock gains in a flat or falling market, holds its own in a falling market, or progresses faster than a rising market. Weakness on the other hand is indicated when a stock falls in a rising or flatlining market or falls faster than the pack in a falling market.

Nothing too complicated there. So, let's look at JB through that prism and see what emerges. In early 2009 JB moved to a "higher low" (the short upward blue arrow) when the rest of the market made lower lows. Then as the market turned positive it advanced at a faster rate than the market, indicating further strength.

But in early 2010 things changed. Weakness began to be evidenced when JB fell while the broader market made gains. The rot really set in early in 2011 when, as indicated by the red arrows, the broader market was able to regain the highs made in 2009 and 2010 while JB was unable to reclaim that territory.

Nothing much has changed this year, with JB continuing to plumb lower prices while the market is making some incremental gains. So, the verdict from this analysis is that it is probably a bit early to load up on JB Hi-Fi stock. Maybe think about an iPad instead.

For those interested in the fundamentals, JB is offering shareholders an attractive 7.8 per cent fully franked dividend but analysts are predicting both earnings per share and dividends per share will fall for the next two years. Management says the company is rolling out new stores and that sales and market share are growing in a difficult market.



This column is not financial advice. Those wishing to invest should seek professional counsel and do some homework.

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