

Tea leaves a bit dodgy? How about the appliance of science



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SOME people use dart boards, others trust their intuition, while some conduct exhaustive research on companies or religiously follow particular market commentators.

There are many ways to pick which shares to buy when managing a trading portfolio, but one often overlooked by mainstream media is a skill called technical analysis. This removes sentiment and "gut feelings" from trading, mapping movements in the price of shares, indices, commodities or currencies, and giving traders a theoretical framework to analyse whether prices are following an upward or downward trend.

It can take years of study to become a tech-

S&P/ASX 200 TECHNICAL ANALYSIS TREND LINE



nical analyst, or chartist as they used to be called.

Unlike other forms of analysis, which examine a company's management, product, structure and upcoming challenges, technical analysis looks only at the share price and presumes other economic and event-related

information is already built into the trading price.

By drawing two lines either side of the share's actual trading price, technical analysts look for where "support" is — a level that the share has not traded below in its current run — and "resist-

ance", which has acted as a ceiling during the share's current run.

If a line is broken, it could signal that a new trend, downward or upward, has begun.

To kick off business-day's new regular coverage of technical trends in Australian share and

index prices, the president of the Victorian branch of the Australian Technical Analysts Association, Paul Ash, has analysed recent trends on the S&P/ASX 200 Index.

The lowest closing point for the index this year was 3120 points in early March. From there it has risen 52 per cent to 4840 points. There has been a clear upward trend, although with many dips along the way. But the upward movement may be slowing.

"The last week and a half we have been going into a sideways movement and we have lost a lot of upwards momentum," he said.

A "sideways" movement describes the index moving up and down

without breaking through horizontal lines of support or resistance. But Mr Ash's charts suggest the market will not keep moving sideways.

"It is looking like there is a possibility of a downward move for a time and it needs to hold above 4770 points," he said.

Mr Ash said the index's 13-month closing high of 4859, reached on October 15, and the subsequent price movements were creating a "descending triangle", with this new high point making the peak and the market heading downwards towards the support line of 4770.

"If it drops below 4770 it could be quite negative for a month or two," he said.