

Market running out of steam and heading for fall, says analyst



TECHNICAL ANALYSIS
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TRADING momentum in Australian companies has softened significantly in the past two months, meaning the nine-month rally may be ending.

Less momentum in the S&P/ASX 200 Index indicates less demand for the stocks that make up the index, according to Robert Brain, a private trader, consultant and secretary of the Melbourne chapter of the Australian Technical Analysts Association.

"Even though the index might be moving higher or moving in a sideways pattern, the falling momentum indicates that the market in general is getting weaker — we

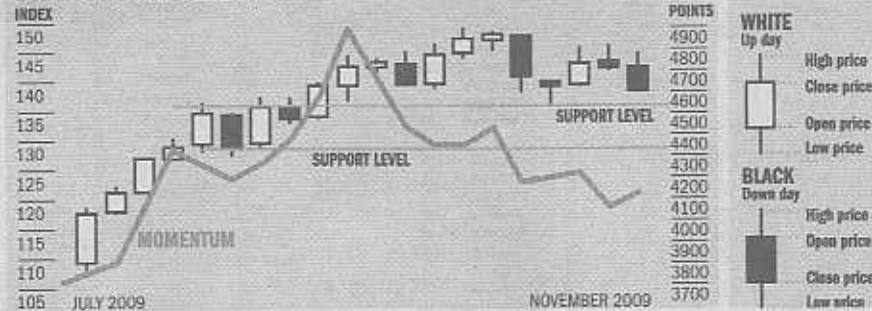
call this bearish momentum divergence," he told BusinessDay.

Momentum is calculated by measuring how much the index changes within a given period.

The decline in momentum has coincided with a significant fall in trading volumes. Average weekly turnover has been about \$5.5 billion over the past four weeks, which compares with an average \$7.5 billion when the momentum line was rising in August and September.

A surprising \$10.6 billion flowed through the equities market in the first week of August. And

CHANGING MOMENTUM



when the momentum line peaked in the third week of September, turnover was \$8.09 billion.

"The last few candles have had a fairly long 'wick' that extends beyond the body of the candle [and] the last three

of those have all been upwards with very little downward tail," Mr Brain said. "That suggests that the market has attempted to move upward in the last three weeks and has been resisted — that there have been more sellers

out there than buyers."

There are also two horizontal lines on the chart, which show where Mr Brain's technical analysis sees support.

Technical analysis maps movements in the price of shares, indices,

commodities or currencies, and gives traders a theoretical framework to analyse whether prices are following an upward or downward trend.

Mr Brain said declining momentum could be used as a leading indicator.

"In the short term, we are testing 4500, but the momentum indicator that is trending downward is forewarning us that there is a good possibility that the index is heading much lower," he said. "If the market does penetrate through 4500 (points) then we are looking at moving back to a figure I mentioned a few weeks ago of 4290."