

Frenzied market nears breaking point: analyst

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THIS week the share-market is wandering into dangerous territory, according to technical analyst Mark Umansky.

He sees the current volatile "broadening top" formation on the All Ordinaries Index chart as coming to its natural demise soon — which, according to chartist theory, heralds a significant fall.

The broadening top formation that has been keeping technical analysts enthralled in recent months is characterised by volatility and three mini-cycles of rise and fall in the market, progressively delivering ever-higher peaks and lower troughs.

The first of these peaks came in early November after the market had climbed 55 per cent in

ALL ORDINARIES



seven months following the 16-month decline triggered by the global financial crisis. As the chart (above) shows, the market peaked a second time around New Year, dropped and then peaked again in April only to decline rapidly with the Greek crisis.

Now, with the third mini-cycle seemingly completed, Umansky says we face a rough ride.

"Because broadening tops are traditionally very large reversals, their technical implications are usually extreme. The projected fall target is derived by subtracting the peak of the pattern from the eventual breakout level.

"If a breakout occurred this week, it would mean a fall of almost 600 points, a level not seen since July 2009," Umansky says.

The extreme volatility of the market in recent times, combined with strong support from buyers when sentiment is good, "implies a frenzied market that's out of control; symptoms of a market top", he says.

"Broadening formations are the product of unrealistic expectations on the part of bullish investors. Patterns such as these always feature indecision

and extreme volatility within the market."

And, according to his calculations, this week should be the week when the pattern confirms this third trough low and would, in addition, signal its readiness for falls to begin.

However, Umansky stresses that overvalued markets usually need a bad-news trigger to bring about the fall they are so desperate to have, which means the deadline of this week for a breakout may not be met.

"Whatever happens, it's sure to be an interesting few weeks ahead," he said.

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