

Optimism rises head and shoulders above recent bearishness

TECHNICAL ANALYSIS
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AFTER so much bearishness and economic doubt in recent months, this week's technical analysis column can deliver a hint of optimism. Alan Clement, an international futures trader and board member of the Australian Technical Analysts Association, says the US sharemarket seems to be ending a protracted bearish stage and a new bull leg looks set to begin.

Between January and this month, the trajectory of the S&P 500 has been characterised by high-to-low swings that were largely decreasing in magnitude. (The two

descending blue lines on the chart.) This, says Clement, is a bullish pattern that completed itself when the market broke out to the upside in late July.

Adding to the good news was the formation in June of the left shoulder of what is known as an inverse head & shoulder pattern. The head formed in July (where the index made a low of 1015) and the right shoulder early this month. Again, this is a bullish price pattern, and will complete if the index breaks out above the head & shoulders "neckline" at about 1035 points on the S&P 500.

S&P 500

1220 POINTS

1180

1140

1100

1060

1020

990

NOV 2009 JAN 2010 FEB MAR APR MAY JUN JUL AUG SEP OCT

When the index formed the right shoulder of the inverse head & shoulder pattern it turned upwards at a previous support level at 1050. Clement says: "This now gives us a 'line in the sand', above which we are

bullish, and bearish if the [index] breaks below it. Last week's strong move to the upside confirms there are eager bulls willing to buy this market."

Clement expects that some of last week's gains

will initially be given up but after that there should be good news.

"I would expect the market to continue to rally strongly to the upside. The target for the S&P 500 if the inverse head & shoulder pattern

completes will be in the 1260 to 1270-point range. If this is correct and the S&P 500 is in a new bullish phase, this will have flow-on benefits for the local stockmarket, which is highly correlated with the US market," Clement says.

Of course the US market is not a direct proxy for the Australian, and local factors such as the outcome and effect of the current political situation will make their presence felt. As always, neither BusinessDay nor Alan Clement is offering investment advice; those wanting to go into the market should seek their own advice.

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