TRADING

S&P 500's ascent may be running out of legs

TECHNICAL ANALYSIS
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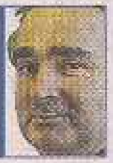

A COUPLE of funny things happened on sharemarkets last financial year.

Australia, which is supposed to have one of the strongest economies in a world struggling with debt repayment and unemployment, saw its major market index, the All Ordinaries, rise 8.6 per cent in the year to June 30.

On the other hand, the US, which was the epicentre of the global financial crisis and is still burdened with debt and unemployment, saw its main market index, the S&P 500, climb 25 per cent over the year.

This week Alan Clement, an international futures trader and member of the Australian Technical Analysts Association, takes a look at the US index and says things on the American market may be about to change. "There are signs," Clement says, "that the two-year-old rally in the S&P 500 may be slowing, and could be reaching a make or break point."

A look at the chart shows that the S&P 500 has been in a sideways consolidation phase since the start of this calendar year (fluctuating between the two blue parallel lines).

After the index made a high of 1364 at the end of April, there was a sharp selloff that pushed it back down to its long-term uptrend line (the lower red line). Despite that sharp fall, the uptrend line was not breached — buyers returned to push the index higher. That buying ultimately precipitated last week's sharp rally, which drove the index up more than 5 per cent.

Clement, however, takes the long-term view and sees the S&P 500 forming a rising wedge pattern (as it is squeezed between the two red lines). This is generally a bearish pattern and it would be completed with the market making a weekly close below the lower red trendline. "However, there could still be more upside to come before that happens," Clement says. For signs of real bullishness, the index would need to close above 1364 (the top blue line). That would signal it had broken the current sideways consolidation pattern.

Unless that happens, investors should be "on alert for a break of the wedge pattern to the downside", Clement says. If the market breaks downwards, it is likely to fall to the major support level of 1065, he says.

Clement warns that the S&P 500 still has a major global influence, so bearishness in the US is likely to be felt here.

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