TRADING

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Stocks index chart points to further downside

TECHNICAL ANALYSIS
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MANY investors will be feeling shell-shocked from the sharemarket gyrations and troubling international economic news of recent weeks. But rather than give in to unbridled panic, veteran Melbourne stockbroking chartist Josef Rudzyn has produced a chart that will help nervous investors look at the situation objectively.

Rudzyn looks back to the market's recovery from the lows of the global financial crisis in March 2009 and demonstrates the market's move to the "megaphone pattern" (the two widening black lines on the chart) that took hold in about August 2009 and finished in May last year, with the S&P/ASX 200 Index falling though the bottom of that pattern. Normally that downside break on the megaphone would be a bearish signal but, as the chart demonstrates, the market moved into a "recovery channel".

That pattern began to falter in March, when the market fell to the bottom of that rising channel. It then climbed, only to pull back when it reached its February high of about 4970 points. This formed a "double top", a bearish signal.

A decidedly bearish phase took hold at point B, when the market closed below the bottom of the recovery channel at about 4700 in the week ending May 27.

As well, the "exponential moving averages" have performed a "bearish crossover". The five-week line has fallen through the 13-week line and both lines are now falling. This indicates to chart-oriented observers that the downturn has further to run.

Often after a breakdown such as witnessed with the breaching of the recovery channel, markets recover slightly as investors take the view that things are "oversold". This happened in recent weeks, with the market bouncing back well above 4600. But last week's gloom saw the market off about 200 points, or 4 per cent. That decline provided confirmation of the bearish signal issued when the index broke below the "neckline" (bottom parallel line) of the "double top". The market is now projected to continue falling to about 4250 points.

That figure is an average of possible downward targets worked out on the assumption that the downside of the market from the neckline of the double top will be of the same size as the journey from the peak of the "double top" back to the neckline.

Conformation of the slide will result if the market closes the week below 4485, the low reached before the most recent run-up.

Those wishing to invest should seek professional counsel and do some homework.

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