

Cracks begin to appear in buoyant US market



TECHNICAL ANALYSIS
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INVESTORS have been recently asking how strong the uptrend in the US sharemarket is and will the Australian market match its performance?

The All Ordinaries Index is down 12 per cent on the highs it reached a year ago and is only up 7 per cent on last December's nadir. The S&P 500, the broad US market index, has risen 23 per cent since December to recent highs — and is still up 19 per cent and has bettered last year's highs.

While some economic data out of the US points to recovery, Alan Clement, a

member of the Australian Technical Analysts Association, says the outlook for the US sharemarket may not be good.

Clement comes to his conclusion by looking at the price of the S&P 500 and its underlying volume trend. "It's one of the tenets of technical analysis," Clement says, "that for a trend to continue in a given direction, the volume of the instrument traded should trend in the same direction as the price."

If that's not the case, then the price trend will tend to run out of steam and a change of direction will ensue, with the price falling towards the volume price trend (VPT). The VPT is worked out by multiplying the daily volume by the daily percentage change in price and plotting an index with



that information. The graph shows how accurate that tenet has been for the US market since 2010. During the second half of 2010 there was a strong upward trend on the S&P 500, backed by a

rise in the VPT. Then in the first half of 2011 the market traded pretty much sideways in what some thought was a consolidation phase of the gains made the previous half. But a look at the volume

side was disturbing. The VPT was trending lower, indicating sellers were winning out over buyers. In August the market started to fall. The US market bottomed in October.

The recent US rally pushed the S&P 500 above its 2011 highs. But the VPT has managed only a weak sideways pattern. This indicates the buying in this bull run has been lacklustre and that will likely weaken the rally, Clement says.

Falls in the past week or so may indicate cracks are appearing. Unless there is an lift in volumes, the market may give up recent gains or consolidate medium term.

This column is not investment advice. Those wanting to invest should seek professional counsel and do some homework.

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