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Well-performing education stock may offer more rewards

TECHNICAL ANALYSIS
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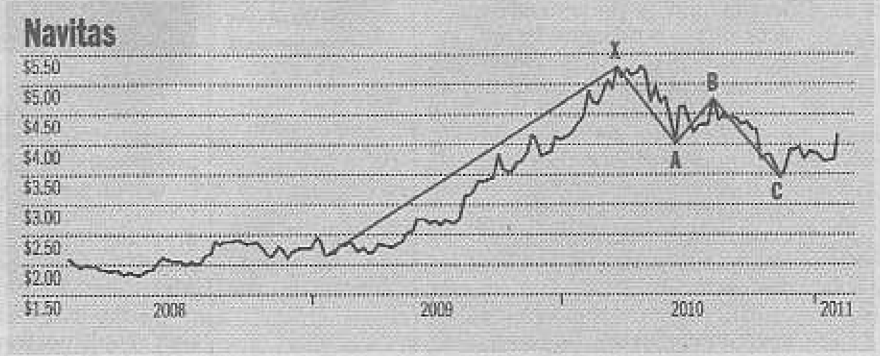
CHARTISTS can bring many different tools to bear on predicting stock movements and today Rob Shelley, of Total Trading Concepts and a councillor with the Australian Technical Analysts Association, looks at education service provider Navitas through the prism of Elliott Wave theory, with reference also to Fibonacci numbers.

Navitas, with a market capitalisation of $1.5 billion, offers educational services such as workforce and language training and university programs in five countries.

Shelley observes that Navitas's share price made a healthy gain of 178 per cent in 2009-10, forming what is known as a "wave 1" pattern in Elliott Wave Theory. That is represented on the graph by the red line running up to point X.

Elliott Wave Theory makes predictions based on the belief that investor psychology swings in almost "natural" cycles of optimism and pessimism. The theory says the first wave up, to point X, should be followed by a downward wave of two equal legs, interrupted by a short uptrend. In this case, the theory is almost exactly matched by Navitas's performance.

The downward wave 2, between points X and C, was broken into two falls,



X-A, when the stock fell from $5.56 to $4.01, losing $1.55, and B-C where the price went from $4.91 to $3.37, a loss of $1.54.

Shelley brings another tool to bear on the situation, a mathematical concept known as the Fibonacci number sequence, the details of which we don't have space to go into here.

Using this theory, the wave 2 should see a Fibonacci ratio decline of 61.8 per cent (not simply the amount the stock fell, but a ratio built up from Fibonacci number sequences). Shelley says the ratio would have seen Navitas strike a low of $3.35, very close to its actual low of $3.37.

Now, Shelley says, Navitas is ready to move to the third wave according to Elliott Theory, which would see the stock climb by the same percentage as it did in wave 1. If it happens, that would mean a healthy gain for investors.

In terms of the fundamentals for Navitas, its price-earnings ratio is 21.3, which compares with the market average of 14.6. But its solid earnings growth has resulted in a dividend yield of 4.7 per cent compared with 4.5 per cent for the market as a whole.

As always, we remind readers that neither BusinessDay nor Rob Shelley is offering investment advice, and prospective investors should seek independent advice before committing funds to the market.