TRADING

Newcrest hasn't hit the end of the rainbow

TECHNICAL ANALYSIS
ROD MYER

WITH gold off its record highs, but still around $US1500 an ounce, Australian Technical Analysts Association Victorian president Paul Ash has cast his eye over gold company Newcrest Mining.

As the world's third-biggest goldminer, with a market capitalisation of about $30 billion, Newcrest is a favourite for investors keen on the metal.

It isn't hard to see why — it has returned those canny enough to hold it a handy 26 per cent over each of the past 10 years.

In the past five years, Newcrest's gold reserves have grown 133 per cent, giving investors more to look forward to. Reserve growth looks assured, with proving work showing big increases in the potential of its Papua New Guinea properties at Lihir and Wafi-Golpu. Ash says: "They have quality management and reserves, with low mining costs and risk diversification [resulting from a range of projects]."

While its share price is well up on mid-2010, it is off its November peak of $43.70 and traded as low as $35.15 on March 17.

A recent rally saw it make $42.66 on April 21. Ash observes that because this recent high was lower than its November high, the stock is eliciting signs of weakness.

Another sign of weakness lies in the fact that the stock has retraced more than 50 per cent of the gains it made in its March-April run.

"The retracement is at the moment being held up by the Fibonacci [number] level of 61.8 per cent," Ash says.

Further signs of weakness are evident in the fact that Newcrest's price has fallen below its 60-day moving average [the red line], resulting in that line now changing from an upward trajectory to the horizontal.

Ash believes the stock is at an interesting point.

If it can rise above the 61.8 per cent Fibonacci floor and rally to $40, then the outlook is bullish. But if it falls back through that resistance level, then the outlook is bearish, with the stock likely to plumb $35.

Neither BusinessDay nor Paul Ash is offering investment advice. Investors should seek professional counsel and do some homework.

rodmyr@ozemail.com.au

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