The Age, 2 Aug 2011 (p.10)

TRADING F

Reading the signs to get a jump on the market

TECHNICAL ANALYSIS
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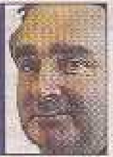


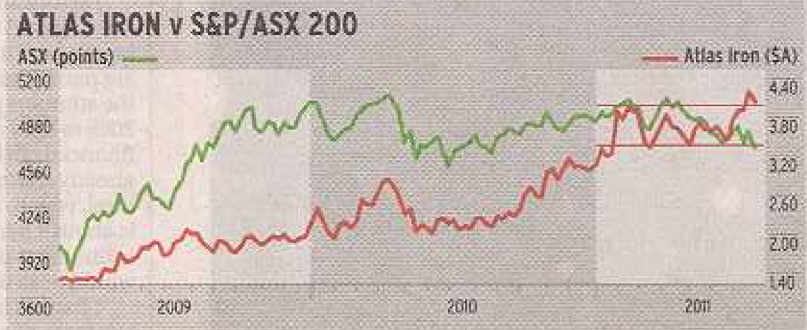
INVESTORS generally, and technical analysts in particular, hold the view that share prices trend upwards on good news in the market and downwards on bad news.

News Corp has demonstrated this in recent weeks, losing 15 per cent in value as the phone-hacking scandal exploded.

But the way to make money is to pick likely movements in share prices before the news hits the market. While this may sound like insider trading, in many cases it isn't: markets often take a view on likely scenarios before all the news is out. Rob Shelley, a member of the Australian Technical Analysts Association and director of Total Trading Concepts, points to the recent history with Caltex.

The oil group's share price fell from early June, seemingly because investors felt things were tough in the oil refining business. By the time the company announced that things were indeed tough, the share price had lost 26 per cent. But because the market had already digested the bad news, the share price began to climb again soon after the company said it expected a dip in first-half earnings.

One of the key tools for getting a jump on the market in such situations is to study "divergence", how a stock's trajectory differs from that of its peers or the general market. Shelley provides an example of this phenomenon in today's chart, which tracks Atlas Iron against the S&P/ASX 200 Index (XJO).



Atlas pretty much tracked the XJO in a generally rising market through the last nine months of 2010. But this changed early in 2011 when Atlas broke away from the index, climbing while the general market began to fall.

Since then the divergence has become more pronounced. From its peak in 2011 the index has fallen 10 per cent while Atlas has gained 36 per cent this year and more than 100 per cent from its lows of 2010. The stock is still making higher highs while the index is recording lower lows.

Most recently it has broken above a resistance level that had formed at $4. It has remained above that level, seemingly turning what was an upper resistance level into a new support level.

Overall, these signs for the miner are good from a chartist's viewpoint, Shelley says. This is especially so when the company's fundamentals are brought into the equation. Earnings per share are tipped to go from a negative 4.1¢ last year to a positive 24.8¢ this year and shareholders are due for a maiden dividend.

This column does not constitute investment advice. Those wanting to enter the market should seek professional counsel and do some homework.

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