

TECHNICAL ANALYSIS  
ROD MYER

SHAREMARKETS are often seen as purely a reflection of the collective sentiment of investors. This may be so on one level, but technical analysis also sees a version of the laws of physics having a role in market gyrations.

This week, Robert Brain, national director of the Australian Technical Analysts Association, takes a look at drilling contractor Ausdrill from the perspective of market momentum.

The attached graph shows the share price of Ausdrill over 15 months, a time frame that has seen the stock as low as \$1.61 and as high as \$3.94.

Underneath the share-price graph Brain has added the 14-day momentum indicator, the solid blue line, which indicates the size of the change in the share price over the previous 14 days.

The horizontal line on the momentum chart is the reference line, set at 100, which simply provides a measure of the momentum line movement. The dotted blue line is the moving average of momentum, which evens out the gyrations on the momentum chart and gives a longer-term view of where things are heading.

In July 2010, point A on the chart, the momentum line crossed above the moving average line, indicating that the share price was moving up at an increasing rate. Both lines

## AUSDRILL



soon moved above the horizontal reference line, a further indication of strength. That could have acted as a useful buy indicator for investors as the share price doubled over the next 34 weeks.

Early in 2011 the momentum line and its moving average began to fall away, with the momentum line falling below the moving

average. This meant that the stock price, while still strong, was moving less quickly and buying support was waning. Last April Ausdrill's stock price peaked at \$3.94 and fell 24 per cent as the price followed the momentum chart downwards.

Then in August, as sharemarkets were shaken by global economic fears, something interesting

happened. At point B on the chart, the momentum line again crossed through its moving average, indicating bigger upward movements in the share price. This, says Brain, is an indicator "that the share price might be about to rally". But "these signals are not 100 per cent guaranteed". Markets can issue what turn out to be false signals and volatility is high at the moment.

Ausdrill has a market capitalisation of \$1 billion and has returned shareholders a handy 61.9 per cent in the past year and 57.9 per cent a year for the past decade.

This column is not to be considered investment advice and those wanting to invest should seek professional counsel.  
rodmyr@ozemail.com.au