

Reap the rewards of this merry dance

TECHNICAL ANALYSIS
ROD MYER

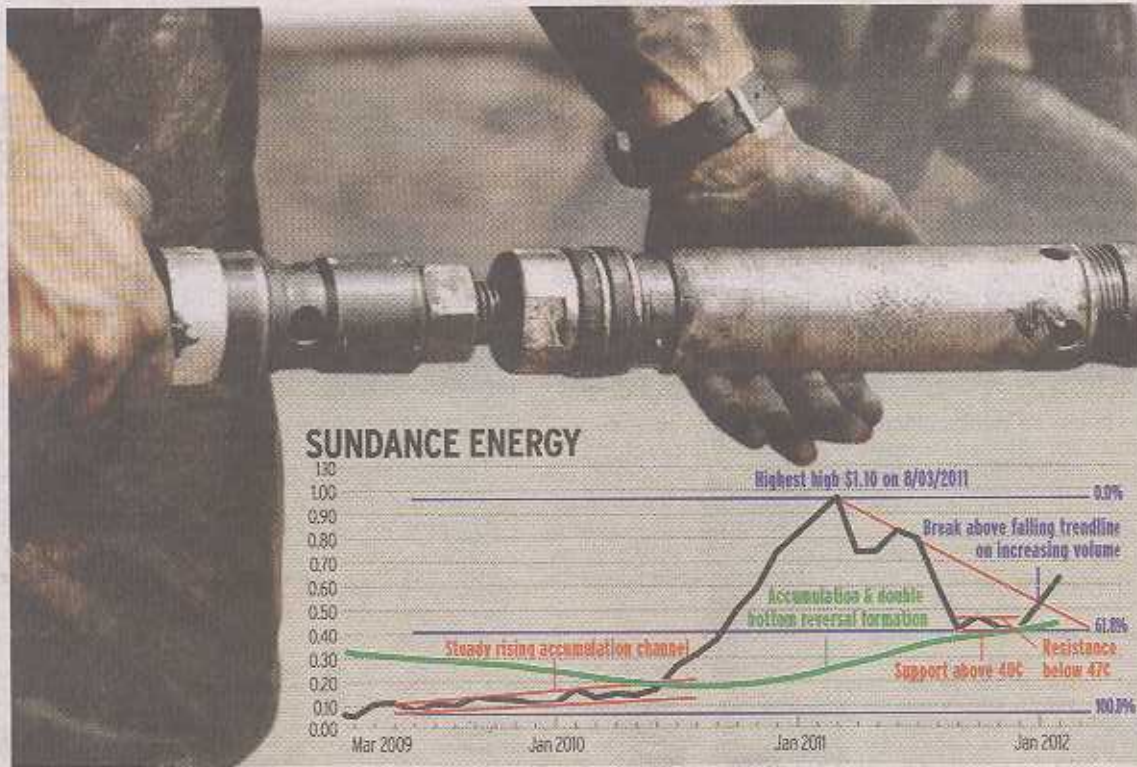


INVESTORS often want to find a stock that rockets from nowhere and makes them a fortune. Those situations do happen but you have to be very astute or lucky to get on board. This week the column takes a look at a stock that has already had a big run-up and, after a fall from its highs, may be back on the growth path.

Mark Umansky, a councillor with the Australian Technical Analysts Association and an International Federation of Technical Analysts-approved certified financial technician, guides us along the graph of energy junior Sundance Energy Australia in the search for potential profits.

Sundance rose steadily for 15 months from March 2009 to June 2010. Then it broke out of what had been a steadily rising accumulation band and rocketed from 20¢ to a peak of \$1.10 in March 2011. Then things turned around and the stock fell for the next seven months, till it touched 40¢.

Umansky says the fall is not as dramatic as it looks at first blush. First, it fell on relatively low volumes, indicating that the bearish view was not widely held in the market. Then he was reassured by the fact that the stock consolidated above 40¢ and did not go down through either the 30-day moving average of the price (the green line) or the 61.8 per cent Fibonacci retracement level. That level is 61.8 per



cent below its previous highs when measured from the bottom horizontal line on the chart and, according to the calculations of technical analysts, staying above that level means the fall is not a complete rout.

For the next four months (October 2011 to January 2012) Sundance's price consolidated within a tight accumulation band, with investors buying around 41.5¢ and selling resistance being struck at 47¢. The double-bottom reversal formation, represented by the two bottoms at about 41.5¢ with the stock bouncing back strongly, was also a sign of strength, Umansky says.

After this short-term consolidation, the price has

once again taken off, rising on greater volumes than was experienced in the short consolidation phase. Umansky says the fact that it broke through 47¢ and is now trading above its falling trend line (the downward red line on the graph) confirms that the downtrend has ended and the current commitment from buyers is solid.

"Should current demand prevail, we can envisage that price would rise and test its all-time high of \$1.10 per share," Umansky says.

For those wanting to take advantage of the situation, Umansky says buyers could enter the market at around current levels of 63¢ and place stop-losses at 40¢ to minimise downside risk.

Risk/reward analysis run on the situation by Umansky shows that a 23¢ risk on the shares (the difference between the buy-in price and the stop-loss) can potentially offer a 47 per cent return, or effectively a 200 per cent gain on the money actually risked (again the difference between the buy-price and stop-loss.)

Sundance Energy is an oil and gas explorer with assets in Australia and the US. The top 20 shareholders own 55 per cent and the company has a market capitalisation of about \$175 million.

This column is not financial advice and those wanting to invest should get professional counsel and do some homework.
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ROOM