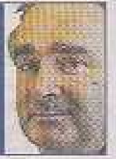
TRADING

Stockmarket surfers need to read the waves



TECHNICAL ANALYSIS ROD MYER

THERE are times when it is useful to look backwards and see where you have been. This applies especially to technical analysis because it allows us to see what happened after we made our investment calls.

About a year ago this column looked at Retail Food Group, a brand manager and franchiser, using a chart provided by Rob Shelley, of the Australian Technical Analysts Association and director of Total Trading Concepts. RFG's three main brands are Donut King, Brumby's bakery and Michel's Patisserie.

Back then we identified that RFG's share price had risen 150 per cent in 2009, forming the first "up wave" according to Elliott Wave Theory principles. Then, in 2010, the stock traded sideways to downward, forming the second "down wave". Last year, we posited that RFG might have been about to form the third upward Elliot Wave pattern and break through upper resistance levels of about $3.

Shelley's latest chart shows RFG had one try at that breakout late in 2010, then two more in the first half of 2011 before being swept down as the sharemarket tide ran out with the re-emergence of the European debt crisis.

After hitting lows in August, the stock began to climb and is now solidly forming the third upward leg of the Elliott Wave formation.

Significantly, during 2011 the stock retraced 38 per cent of gains made between the 2009 and 2012 first-wave formation according to the Fibonacci number series, which Shelley says is a sign of strength. It did fall below that 38 per cent retracement in intraday trading but quickly bounced back — another bullish signal. So is the fact that it has made three attempts to break through the $3 upper resistance level and moved again in recent times. If it breaks through $3, Shelley says, he would then be setting a target of $4.

RFG looks to have room to move up. It is trading on a price-earnings ratio of 9.54 compared with 12.4 times for its market sector. It has a healthy dividend yield of 6 per cent compared with 5.1 per cent for the general market. It has a relatively modest market capitalisation of $287 million and its earnings per share are predicted to rise from 26¢ in 2011 to 28.3¢ in 2012 and 31.8¢ in 2014.

In February, the company announced a 6.7 per cent increase in first-half profit and the acquisition of Pizza Capers Gourmet Kitchen. It now has 1136 franchise outlets in five countries.

This column is not financial advice. Those wishing to invest should seek professional counsel and do some homework.

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