

Protect yourself from losses by recognising a downward trend

TECHNICAL
ANALYSIS
ROD MYER

THE trend, as they say in the investment world, is your friend and this week Australian Technical Analysts Association director Robert Brain graphically shows why that's the case. To do anything other than "trade with the trend" is, Brain believes, risky business.

This week's graph plots the daily progression of the All Ordinaries Index from early March to the present. From March, the All Ords tracked upwards until it peaked on April 15 at 5026. Then things started to go into negative territory until it hit a low of 4521 on May 10.

The next peak was

4589 on June 21, when another down cycle saw it bottom at 4245 on July 6. The market then traded up to a high of 4581 on August 9 and fell to what at first glance looks like another low of 4408 on August 25.

There has been an upward kick since then, but beware of false dawns.

Technical analysts draw their trends from the progression of those highs and lows. LH1 on the graph (lower high, in technical terms) was well below the April peak, and LH2 and LH3 were lower again, if only marginally in the second case.

Take notice of the fact

ALL ORDINARIES



that the lower lows, LL1 and LL2, are also in a downward progression. All that combined, says Brain, puts us in a downward trend. We need to wait another two or three weeks to see whether the current

position is the start of a kick upwards above the three previous LH points or whether things turn down and we remain in a downtrend.

In the meantime, Brain says, discretion is the better part of valour.

of a trend continuing in its current direction are greater than the chances of the trend ending. This applies to the index and to individual stocks," Brain says.

This simple dictum is often ignored by long-term investors who get a bit excited and see only bargains on the memory of last week or last month's prices.

"We need to remember the stocks that can get so cheap that no one wants them and they disappear. Remember ABC Learning, HIH, Babcock & Brown and Allico Finance?" he says.

rodmyr@ozemail.com.au

The Age
31-8-2010
p.8