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**TECHNICAL ANALYSIS
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WHAT a difference three months can make on the sharemarket. In mid-April the market peaked at the top of what technical analysts call a "megaphone" formation when the ASX/S&P 200 Index hit 5000 points. The top of a megaphone can be a dangerous time as it can signal a big market fall, which, as you may have noticed, is what happened this time.

By mid-May the market had dived and broken through the lower floor of the megaphone formation, plummeting to a low at May 25 (point A on the chart). Then some optimism saw it climb back to 4612 points on June 21 but since then the news has

been all bad and technical analysts are pondering the age-old question, "how low will it go?"

Robert Brain, a private trader and director of the Australian Technical Analysts Association, has looked at the situation three ways and says hold on; we aren't at the bottom of the big dipper yet. The nadir of the current market is likely to be between 3950 and 3855 points on Brain's estimation. Using traditional technical analysis as a guide, Brain says the low point of the current slump is likely to be reached when the market has fallen the same distance from the bottom

Hold on to your hats, the sharemarket fall has a way to go yet

MEGAPHONE CHART



of the megaphone formation as it did in falling from the top of the megaphone to the formation's base.

So, Brain says, "take this range in price (experienced in the

megaphone) and extend it downwards, starting from the pattern failure point, to see one possible target at about 3950".

Using Elliott Wave Theory leads to a prediction in the same

sort of territory. Elliott Theory sees markets falling from highs in three legs — a fall followed by a recovery and then another fall to the bottom of the decline. Using this theory, Brain says the fall

from the market peak in April to Point A on the chart, a 737-point decline, will be matched in the fall from point B before the market bottoms out for another rise. That analysis predicts a market bottom of 3875.

Using a complex Fibonacci analysis that predicts the market will give up 61.8 per cent of the gains it made from its March 2009 lows after climbing to its April 2010 peak, Brain predicts another bottom of 3855. Whichever way the technical analysts look at it, investors, it seems, are in for a bit more of a downhill ride before good news arrives.