

The Age, 7 Feb 2012 (p8)

TRADING F

'Rising wedge' offers warning on market index

TECHNICAL ANALYSIS
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THE blue-chip end of the sharemarket, which was the investor's friend for the best part of the 20 years leading up to the global financial crisis, was difficult and frustrating last year.

And according to analysis provided by Alan Clement, an international futures trader and member of the Australian Technical Analysts Association, the situation may not improve in a hurry.

In the graph of the S&P/ASX 200, Clement identifies what technical analysts know as an "ascending triangle", which formed during late

2010 and early 2011. That formation is normally seen as a bullish indicator, built on a series of "higher lows" where price fluctuations come off a rising base.

Analysts thought the ascending triangle would push the market through the top blue resistance line and reach 5000 points. But scares about the banking system and the euro zone intervened and, after a brief spurt to 4973 in April, the market turned south and broke back through the red dashed upwards trend line.

Investors then appear to have panicked and a quick liquidation of stocks saw the index crash some 1100 points. Clement describes that sell-down as an "impulse move" and says such events are usually



followed by periods of consolidation.

That's exactly where we find ourselves now. In the past few months, the index has formed what Clement calls a "rising wedge". Technical analysis brings its version of the laws of physics to bear on this pattern, seeing it as something akin to a spring being tightened,

restricting the market's range. Eventually the tension is too much and the rising wedge formation snaps, generally to the downside.

"If this rising wedge is to produce another leg to the downside, we would first expect the market to retrace at least 50 per cent (the middle dotted blue line) of the initial impulse move

down. This could take the market back up to the 4400 level in the near term, which would coincide with resistance at the upper boundary of the wedge formation," Clement says.

And how deep is any market dive likely to be? Clement says we could expect a repeat run of the impulse move down to 3300. But keep in mind that he says any such move could be months away. A bullish case is hard to make but an upside break from the wedge is a small possibility that Clement says investors should consider.

This column is not investment advice. Always consult a licensed financial adviser and do some homework before risking your capital in the market.