

# Index comparisons reveal how broad stock movements are

TECHNICAL  
ANALYSIS  
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INVESTORS wanting to get a picture of what the market is doing usually view indices covering a large number of stocks, such as the All Ordinaries or the S&P/ASX 200. However, this week Robert Brain, Australian Technical Analysts Association national director, takes a look at the S&P/ASX 20, which charts the progress of the market's top 20 stocks.

It is a useful index to compare with others such as the S&P/ASX 200, Brain says, to see whether the market is being driven by the largest stocks or whether any movement is more broadly based. When considering such comparisons it is well to

remember that the S&P/ASX 200 reflects the relative positions of its composite stocks so the top 20 will have a stronger influence on its direction than the bottom 20 in the index, for example.

As a result, Brain observes, "most of the time, two major indices like these tend to move roughly together from week to week and month to month". "Also, an index like the XTL (top 20) is an aggregation of the values of the 20 constituent stocks. If we look at a price chart of each of these 20 stocks we will actually see some of them rising, some of them falling, and some remaining flat.

XTL

3100 POINTS

3000

2900

2800

2700

2600

2500

AUGUST 2009

NOVEMBER 2010

"So, a rising index does not mean that all the stocks in the index are rising, it simply means that the "average" value of these stocks is rising. Perhaps there is money moving back and forward from one stock to another, or perhaps from

one market sector to another".

This week's chart views the XTL since August last year and shows the broadening "megaphone" pattern mentioned in this column midyear. We can also see a large downward movement in May that

broke that megaphone trend on the downside. Then for five months an upper resistance level of around 2780 points emerged, with a series of "higher lows", (points 1, 2 and 3, ) appearing. The market then broke through that upper

resistance point, making a top on November 5 (point 5), before falling away sharply but still reaching a final "higher low" (point 3).

With the market still below the upper resistance point, the indications are, Brain suggests, that things are at a turning point: the recent short-term uptrend may have finished. So, his advice is to keep an eye in coming days on both the top 20 and the S&P/ASX 200. Further weakness could indicate a downtrend for coming weeks while upward movement to a new high above point 5 on the chart could indicate a new uptrend.

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