Is this just a bear rally?

GAINS POSTED BY MAJOR INDICES IN THE PAST MONTH SUGGSES THE QUESTIONS OF WHETHER OR NOT THE MARKET HAS ALREADY BOTTOMED AND IS CLOSE TO RECOVERY.

Akin to a spring pressed down with strong pressure, we expect a true market rebound to be fast and furious. Hence, knowing when the true bottom happens is all the more important to prevent losses incurred by buying at the height of a bear rally, and eventually maximise one’s portfolio returns. However, the chart shows that we are still in a bearish market and it is important for investors to realise that if they buy now, there are two things they need to remember. First is that they have to be nimble, and second, is that they need to have a strict cut-loss trading strategy in the event that STI breaks its recent low — which could trigger yet another round of heavy selling.

Following is a detailed analysis of the local stock market through a review of the STI.

The STI has been on a sharp downtrend until it met its strong multi-year support of 1,473. Though it did break the support and went down to 1,457 on the 9th of March 2009, there was no confirmation on the following day to indicate follow-up selling. Instead, the index turned sharply positive with many believing that the worst is finally behind us. This is evident in the sharp upturn in the stock market indices worldwide gaining over 10 per cent in the major averages such as Dow Jones Industrial, S&P 500, Nikkei and Hang Seng.

On the local front, the widely followed Straits Times Index (STI) also posted gains. With such developments, interesting questions arise: Have we seen the bottom? Or is this just a bear rally?

YANLORD

Yanlord is one of the few S-shares that have remained resilient. Although it previously reached a high of $4.40, its current price of $0.90 is holding well compared to other S-shares. Yanlord recently rebounded from $0.66 to $0.90. Looking at the chart, there is a technical horizontal resistance nearby at $0.95. Breaking this resistance may see more buyers coming into this stock with the next resistance nearby at $0.95. Breaking this resistance may see more buyers coming into this stock with the next resistance level being the high achieved at the start of this year. A minor technical support may be found at $0.80, with a much stronger support at $0.68, representing the low of 2009.

DBS

DBS was one of the earlier blue chip companies to announce a rights issue this year. After the rights had been issued, a shooting star candlestick formation could be spotted. Following this bearish candlestick pattern, the price dived to a low of $0.43 before joining the rest of the market in the recent rally. Currently, the stochastic is seen to be in the oversold level while also moving very close to the 50-day moving average, thereby indicating likely resistance to further upside. DBS is also reaching its horizontal resistance of $0.83. Technical support will be at the recent low of $0.43 which also represents the 2009 low.

CAPITALAND

After Capitaland formally announced its widely-anticipated rights issue, the price briefly rallied until it hit the 50-day moving average resistance before succumbing to heavy selling that pushed the price to the 2009 low of $1.78. In tandem with the current broad market rally, Capitaland has rallied once again to the 50-day moving average resistance. If it does manage to break this resistance, it will then have to face the next stronger resistance at $2.3 which represents the most recent post-adjusted high. Technical support may be found at $2 followed by $1.78.

THE DEAL WITH S-SHARES

Valuations for S-shares have been totally decimated. Previously seen as great future investments, these darlings of Singapore investors have proven to be more often than not — bad investments. Starting off with the Ferrochina saga, which saw the company getting suspended from trading due to on-going problems with its debt, several other S-shares also came to focus. Rather than being a one-off affair for S-shares, news quickly followed on issues pertaining to Fibrechem, China P&Dye, Celestial Nutrifoods, Beauty China, Sino Environment and most recently, Oriental Century which did a “Satyam-like” case on reports that its sales were inflated. However, there are still quite a few S-shares still holding out well such as Yanlord, Midac, Coson, and Yangzijiang. Investors are expected to do due diligence when investing in S-shares. Let us look at the chart of one such S-share, Yanlord.

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