Trading a Sideway Market

WHILE THE MARKET AWaits THE EFFECTS OF KEY EVENTS IN THE US AND IN THE HOME FRONT, INVESTORS CAN EXPECT SOME TRADE OPPORTUNITIES

Text: ChartNexus Market Research Team

The recent stock market rally provided some relief for numerous investors who got severely burned by holding on to their investments since 2007. But what triggered the positive sentiment in the stock market? The probable factor for the recent rally came from the buzz surrounding the huge US stimulus package proposed by newly-elected US president Barrack Obama. The confidence of the stock market was further boosted by anticipation of the last year-end "window dressing" and the Capricorn effect. Our own market participants in Singapore have speculated on Obama's inauguration ceremony last January 20 as well as the Singapore "Budget Day" on January 22 with expectations of a positive outcome from these key events.

At the same time, many experts and professionals have also provided due warning on possible negative economic growth and the many challenges ahead. Given the current conflicting situation, should investors take a positive outlook or a negative outlook? To solve this puzzle, we have to understand the market psychology by looking at the Straits Times Index (STI), the key barometer of the Singapore market.

Since October 2008, the STI has been supported at 1,470 points and has started an upward movement until now. The confidence of the STI's upward movement may be attributed to the widely known Capricorn effect. Furthermore, Singapore's 2009 Budget has been brought forward to January 22. This fuelled speculations by holding on to their investments since 2007. For numerous investors who got severely burned the recent rally may be running out of strength and may be attributed to the widely known Capricorn effect. Furthermore, Singapore's 2009 Budget has been brought forward to January 22. This fuelled speculations by holding on to their investments since 2007. For numerous investors who got severely burned.

As one of the major banks in Singapore, UOB may be affected by the worsening global economic situation. A downturn is made up by a series of lower highs and lower lows. The stock price is currently trading below the support level at $12.05 signifying that a lower low has been formed. The significant resistance level of UOB may be at $13.95, which is the 3-month high.

Cosco Corp issued a profit warning statement in recent weeks which triggered a string of downgrades by various research firms causing the company to face selling pressure. Cosco Corp has just broken a technical support level at $0.93 which signals an end to the short-term uptrend. The $0.93 level may now become a potential resistance level especially since the 50-day moving average is trading around the same level. The key support level for Cosco Corp may be at $0.66. Failure to hold at this significant support level may indicate further downside as this level had been tested two times in October 2008 and November 2008 respectively. A bearish demand index (DI) crossover is seen in the average directional index (ADX) indicator signifying possible downside.

Cosco Corp

Capitaland hit the headlines recently with rumours on the issuance of rights that has caused its share price to fall sharply. It has, however, denied such rumours. Like most stocks in the property sector, Capitaland has broken the support level which was at $2.85. This was a significant support level because it was a confluence by the 50-day moving average. Thus, the next significant support level may be $2.38 which is the 3-month low. The upside for Capitaland may be limited by the resistance level of $3.25.