# Is this just a bear rally?

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

**TEXT** CHARTNEXUS MARKET RESEARCH TEAM

Amid this gloomy environment of dire economic forecasts, we have been bombarded by a slew of news that has left us concerned, frustrated or just entertained. Shocking news keeps coming from the financial sector with the recent one being the contractual necessity of giving out executive bonuses at American insurer AIG. A move frowned upon by the US president himself and criticised by the majority.

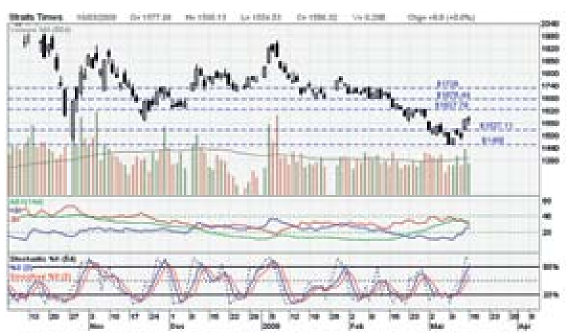
Market sentiment in the past weeks, however, has turned sharply positive with many believing that the worst is finally behind us. This is evident in the sharp upturn in the stock market indices worldwide gaining around 10 per cent in the major averages such as Dow Jones Industrial, S&P 500, Nikkei and 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?

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.

At such point, both scenarios of the current upturn being a bear rally or the real turnaround are possible. 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.

## STRAITS TIMES INDEX (STI)



Source: www.chartnexus.com

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, this represented the very point where the recent rally started with a gain of 100 points in one week. This illustrates the importance of knowing the important support and resistance levels where turnarounds are likely to happen. Currently, stochastic is pointing to the STI being overbought indicating a likely pull back in the short-term. The ADX, on the other hand, is starting to turn downwards, indicating that the downtrend in the index may be losing its energy. Therefore, it is probable that the STI may continue to see some upside. Investors are expected to be nimble and fast-footed on the long side as we are still in a bearish market. The STI is expected to be resisted at 1,627, which is also close to the Fibonacci 38.2 per cent. If the STI managed to break that resistance, we can expect a stronger resistance at 1,676. Support for the STI would be at 1,527 which is the candlestick rising window and a stronger support would be at the recent low of 1,456.

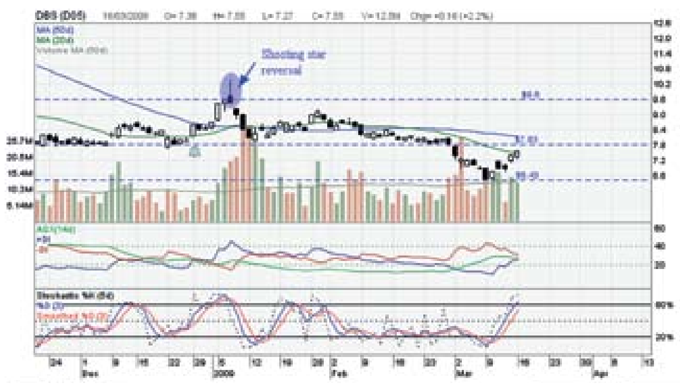




## YANLORD

Source: www.chartnexus.com

## DBS



Source: www.chartnexus.com

## CAPITALAND

Source: www.chartnexus.com

## 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, Midas, Cosco, 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.

## 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 $0.665 to $0.90. Looking at the chart, there is a technical 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 $6.43 before joining the rest of the market in the recent rally. Currently, the stochastic is seen to be in the overbought 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 $7.83. Technical support will be at the recent low of $6.43 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 $1.76. 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 clear the next stronger resistance at $2.3 which represents the most recent post-adjusted high. Technical support may be found at $2 followed by $1.76. **SI**

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