

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 Barack 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.

STI CHART



Source: www.chartnexus.com

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 that the Singapore government may announce some positive news to boost the slowing economy.

In our article last December, we observed that the STI's key support level was at the 1,470 points level. The good news was that the STI has stayed above this key support level since then. Otherwise, if we break below this key support level, it may signify more downside for STI. In addition, we also marked the resistance level of STI to be at 1,930 points. Indeed,

the STI has failed to crack this resistance during the bullish start of the New Year. This has greatly disappointed investors as many were looking for the momentum to continue past Chinese New Year.

More evidence of weakness in this rally can be seen from the Money Flow Index (MFI) indicator. As the STI trades towards the resistance, we have observed a bearish divergence on the MFI. This signifies that the current rally may be running out of strength and investors should be prudent in their trades. If the market trades in a sideway pattern, there will be great trading opportunities between the support level at 1,470 points and the resistance level at 1,930 points. Let us look at three index component stocks which may benefit from the STI's movement.

COSCO CORP



Source: www.chartnexus.com

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.

CAPITALAND



Source: www.chartnexus.com

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 may be \$2.38 which is the 3-month low. The upside for Capitaland may be limited by the resistance level of \$3.25.

UOB



Source: www.chartnexus.com

As one of the major banks in Singapore, UOB may be affected by the worsening global economic situation. A downtrend 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.

In addition, bearish divergence can be clearly seen in the MFI as the price tested the resistance level in January 2009. The key support level may be at \$11.00 which is the low of October 2008 and November 2008 and failure to hold this key support level may result in heavy selling. **SI**

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