

Low Confidence Drags Markets Down

FALLING STOCK MARKETS SIGNAL A CONTINUING NERVOUSNESS THAT PERVADES GLOBAL BOURSES. IS A REBOUND IN THE OFFING?

By NG EE HWA

In last month's article, we investigated the impact of the Lehman Brothers fallout and how the negative sentiment would have affected the local bourse. Since then, stock markets around the world have plunged in a free-fall style. Many investors have lost both money and confidence basing on dwindling trading volumes. Governments around the world are doing all they can through a concerted effort to stabilise the market and to restore

confidence. Yet the passing of the US\$700 billion bailout plan did little to calm a nervous market driven by fear. It didn't help when economic data came in weaker than expected leading to recession worries. Singapore is now in a technical recession. Many experts and leaders have warned of slowing growth and challenging times ahead. Given the current situation, I do not see any incentive for a sustainable rally other than that of a technical rebound.

There is a trading principle which is to be observed when applying technical analysis – in a bull market we look for support to buy and in a bear market we look for resistance to sell. Hence, when the rebound happens, it is important to know where the resistance levels are. Let us first identify the market direction by analysing the chart on the Straits Times Index (STI) and discuss three featured property stocks in this article.

STI Chart



Source: www.chartnexus.com

STRAITS TIMES INDEX (STI)

Recently, technical support levels were broken with ease due to the low confidence level in the stock market. This is alarming. It requires confidence for the market to bounce from the support levels and this is sorely missing. In contrast, low confidence increases the resilience of the resistance level as nervous traders and investors will look to sell their shares whenever the market gets near those levels. Although the technical support level may be around 1,800 points, I doubt very much it will support the falling market if confidence is not restored soon. Instead, I will pay more attention to the resistance level when trading this volatile market. Current readings from the indicators show that the downtrend is in full swing with no hints of positive divergence yet.