The Chartist

The Australian Share Market Technical Outlook

Nick Radge
March 2007

THIS DOCUMENT IS PROVIDED UNDER COPYRIGHT AND THE PROVISIONS SET OUT IN THE "COPYRIGHT AND CONFIDENTIALITY AGREEMENT"

For further information please visit:

COPYRIGHT AND CONFIDENTIALITY AGREEMENT

THE AUSTRALIAN SHARE MARKET
TECHNICAL OUTLOOK

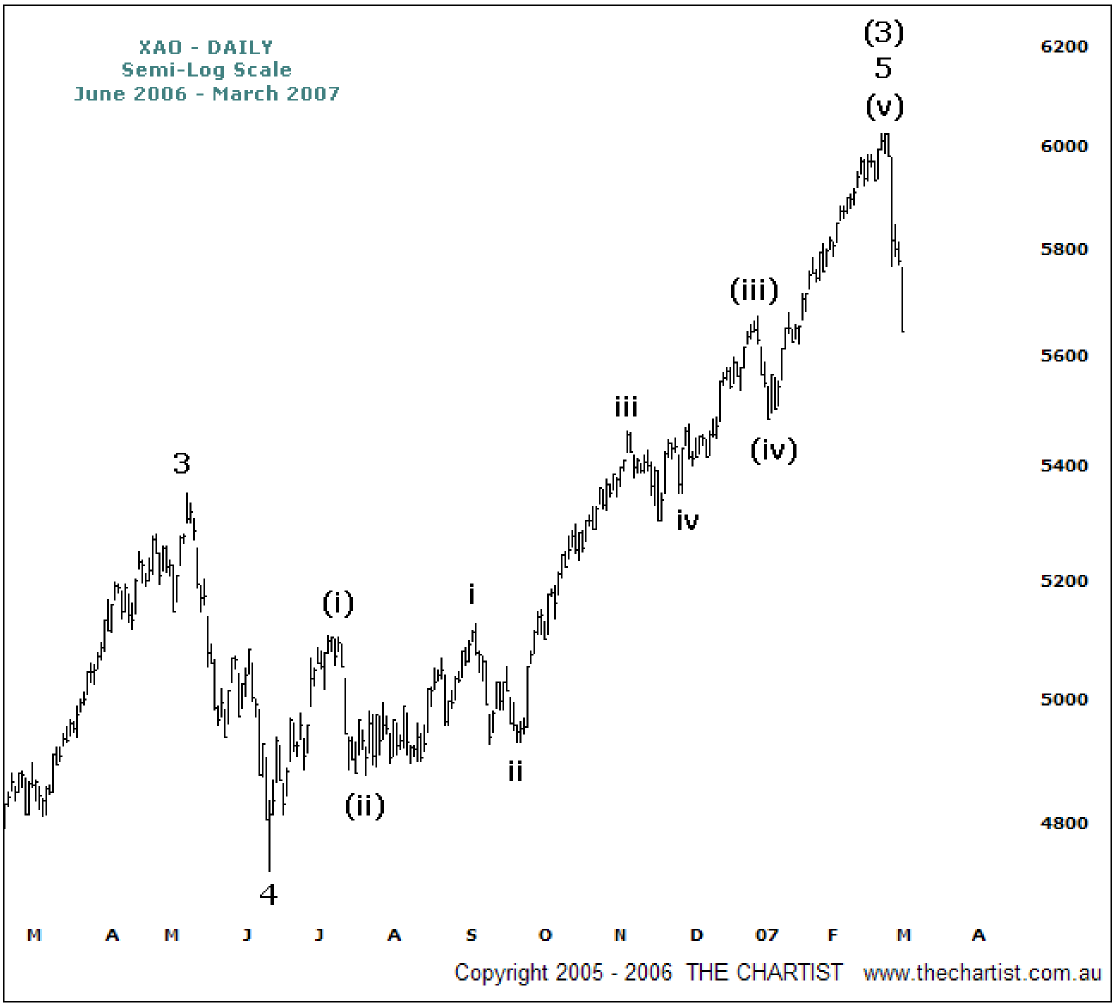
Summary:

1. The market may have made a significant high
2. If so, it is expected that prices will have sideways to down bias for approximately 8 to 10-years
3. We're seeing a transition period out of Baby Boomer involvement. We expect the X/Y-Generations to take over the bull market after the extended transition period.
4. In this coming transitional period, Trend Following and Buy & Hold Strategies will underperform. Swing Trading (long and short) and Buy-Write Strategies will outperform.

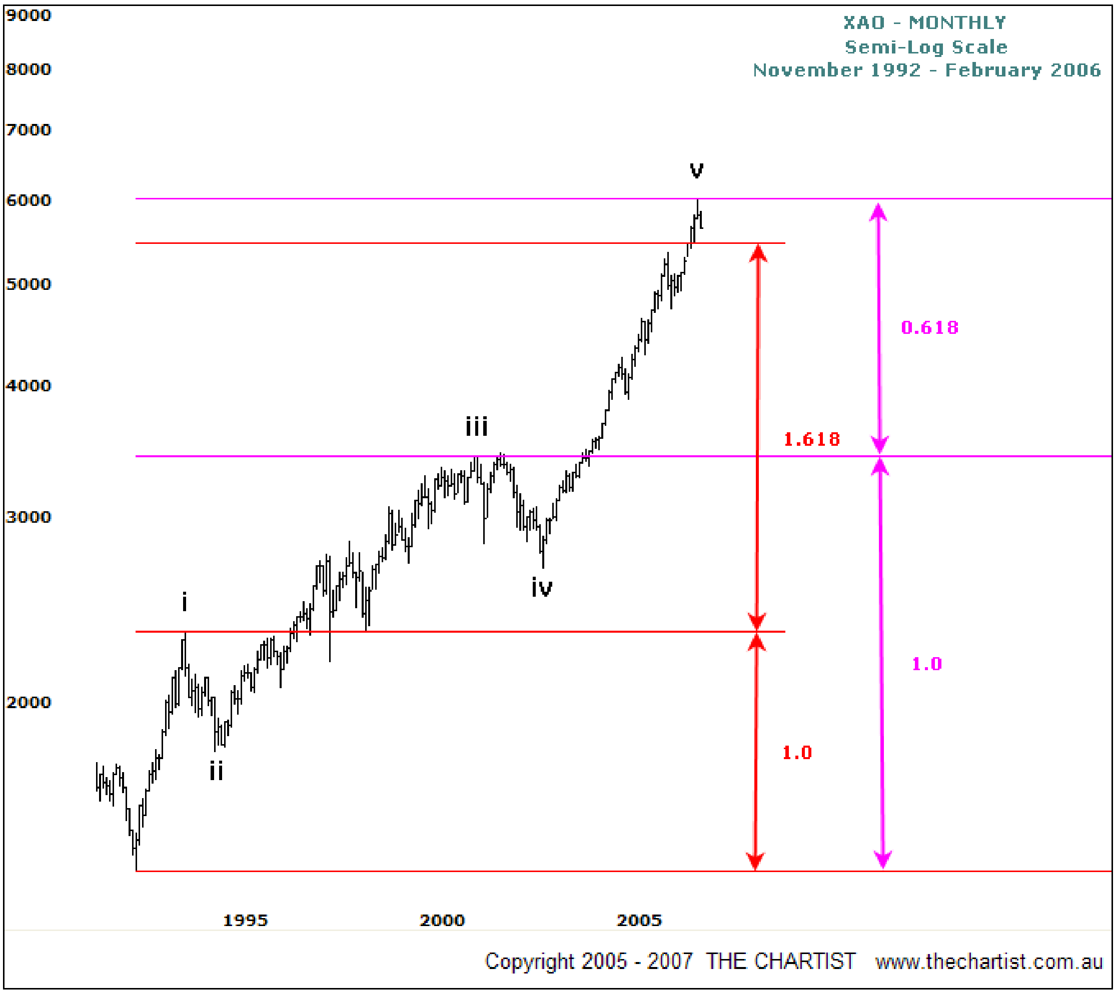
The recent price decline combined with our pattern analysis over various time frames points to the possibility that the Australian Sharemarket may now endure an extended period of sideways to downward activity that will last a number of years. If this outlook proves correct, a significant change of strategy than that used since 1992 may be required, at least during this transitional period.

We will look at various charts from multi-month daily charts through to multi-year monthly charts back to 1950 to better assess the current trend situation and therefore what may be expected for the years ahead.

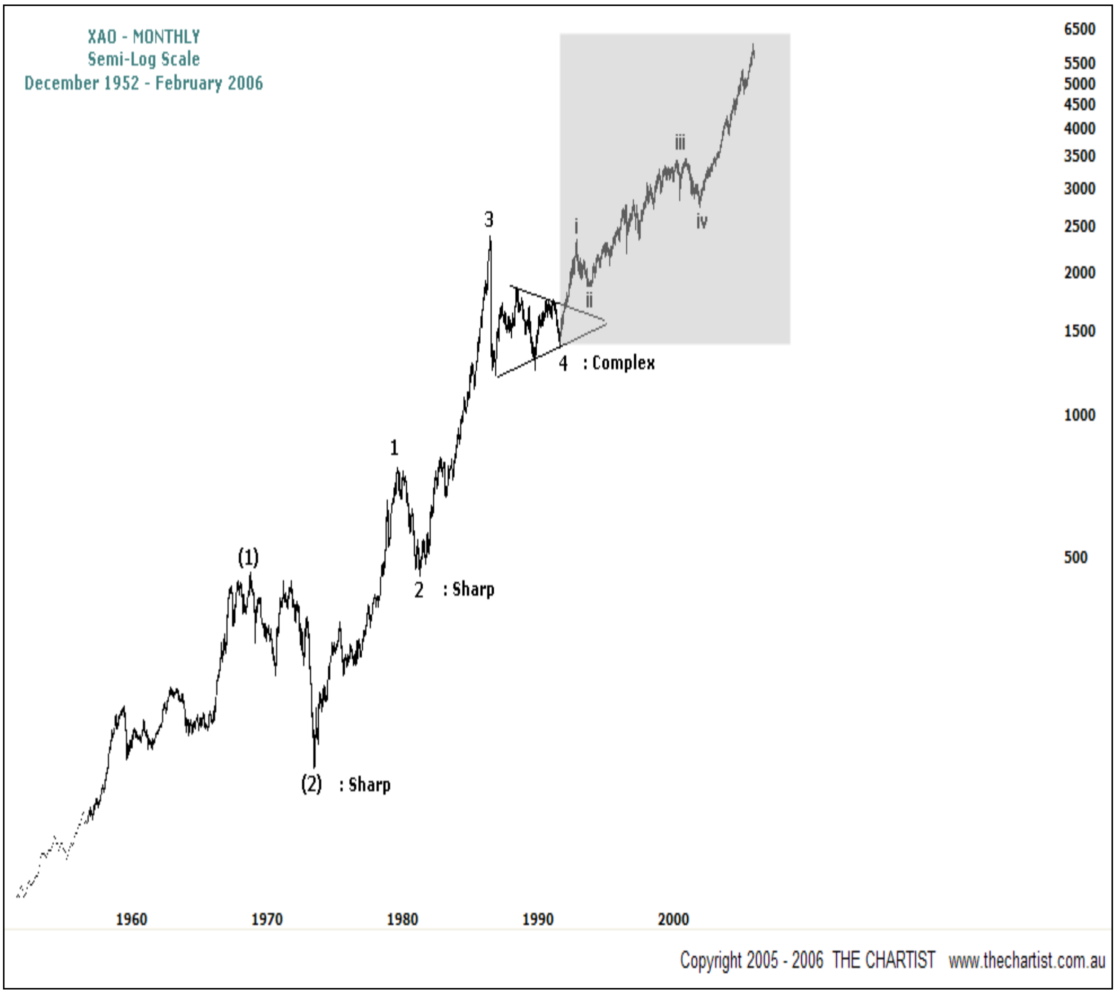
The first chart shows the daily activity that we've been plotting for the last year or so. It represents the most recent trend starting in June 2006. The decline has been sharp enough to suggest the immediate trend has terminated and that further declines will now unfold. It is rare that, after such a sharp decline, prices will move straight higher again. Usually any strength will be an opportunity for stragglers to offload losing positions which may be enough to continue to cap prices.



The next chart plots the recent significant trend from 1992 through 2007. This is the most influential chart because of the clear wave structure and the Fibonacci relationships. When the two separate Fibonacci extension levels coincide there is a strong case for a change of trend. You can clearly see here that the recent high coincides almost exactly with one of the extensions, but more importantly their coincidence levels are close enough to be strongly considered.



The nest chart shows the multi year trend since 1950 with the most recent significant trend (above) highlighted. The importance of this chart is the trend that started in 1974 appears to have travelled the full 5-waves labelled; 1, 2, 3 and 4. If the trend highlighted above from 1992 has completed, then this larger trend starting in 1974 has also completed creating a wave-5. The waves-(1) and –(2) highlighting the multi decade trend are worth noting here. They formed a zigzag correction that was "sharp", that is a steep decline. If we then move to the next lower degree pattern, the one labelled 1-2-3-4 and 5 you can also see that wave-2 formed a "sharp" correction and wave-4 formed a "complex" correction. This is known as the Law of Alternation. It states that if one correction is "sharp", then the other will be "complex". Therefore, the larger degree wave-(2) was "sharp which means that the coming wave-(4) will be "complex" and time wise will run for a period of roughly double the prior "sharp" movement.



Lastly we add the expected counts onto the same chart. Here we have annotated the recent high as completing waves-v, -5 and –(3). If the Law of Alternation stands true, then wave-(4) should be complex and it should last approximately twice the length of time that wave-(2) lasted which will place prices in a “holding pattern” til 2017.

A complex correction need not be deep and it’s unlikely to be the case here. It will however be very choppy, very similar to the price action experienced between 1988 and 1992. In this case, because we are dealing with a larger degree pattern, we can expect this period of choppiness to be substantially longer in time.