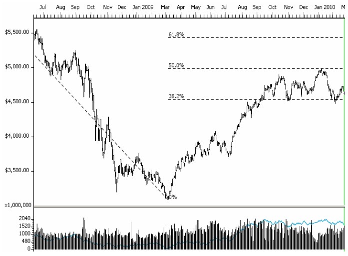
Issue 9: March 2010

# The Visual Investor

## Becalmed in a ocean of debt



**Stuck in a rut!**

Well after all the ballyhoo about the RBA keeping rates on hold in February, we had analysts revealing that 'weak data' had prompted the pause. This quote caught our eye*:*

*"The Reserve Bank Board next meets on March 2. The surprise decision to put rates on hold in February has convinced markets that the Bank will pause again in March"*.

The RBA promptly raised rates another 25 basis points at their March meeting, you've got to love these analysts!

Offshore, the sovereign debt issue just will not go away and kept markets in the doldrums. The machinations within the EU over Greece continued with the Greek Government's austerity measures exceeding what was asked of them. This brought everyone and his granny onto the streets in Athens to protest. As mentioned last month, the jury is still out on Portugal, Ireland, Greece and Spain; collectively known as the PIGS. This month we heard that the PIGS had become PIIGS with the inclusion of Italy.

The risk of sovereign debt and China's clamp down on lending weighed heavily on global market, despite signs of recovery. In early March the Icelandic voters went to the polls in a referendum on whether they were going to pay $5 billion in overseas debt. Five billion is a mere bagatelle I hear you cry, but given that there are only 320,000 Icelanders that $15,000 each! No surprise then that they voted NO.

All in all a very frustrating time for market investors. Every time it seems we might be making some progress, another bad news story about debt issues knocks us back. How long we wonder before solid corporate numbers start to tilt the balance in favour of a good run up. Remember, there is an awful lot of cash out there with some estimates that Super funds have in excess of 50% of funds in cash, and it eventually has to go somewhere.

## MARKET VIEW

Frank Watkins

I was going to title this months subject "Signs of a recovery" but had to stop and remind myself that we are close to 50 percent off the lows of March 2009. We are recovering, we have recovered 50 percent. Perhaps if the 50 percent level were not known as a Fibbo retracement level we would all be happier.

At the risk of repeating myself the problem for most traders is that it was "The Moron's Portfolio" that was responsible for over ninety percent of the rise. If you did not own the four banks, RIO, BHP and WES then you may have made about 4 percent of the 50 percent rally. The other issue is that the rally was very bumpy with big selloffs at the faintest hint of poor economic data, Dubai, US job numbers, Greece etc.

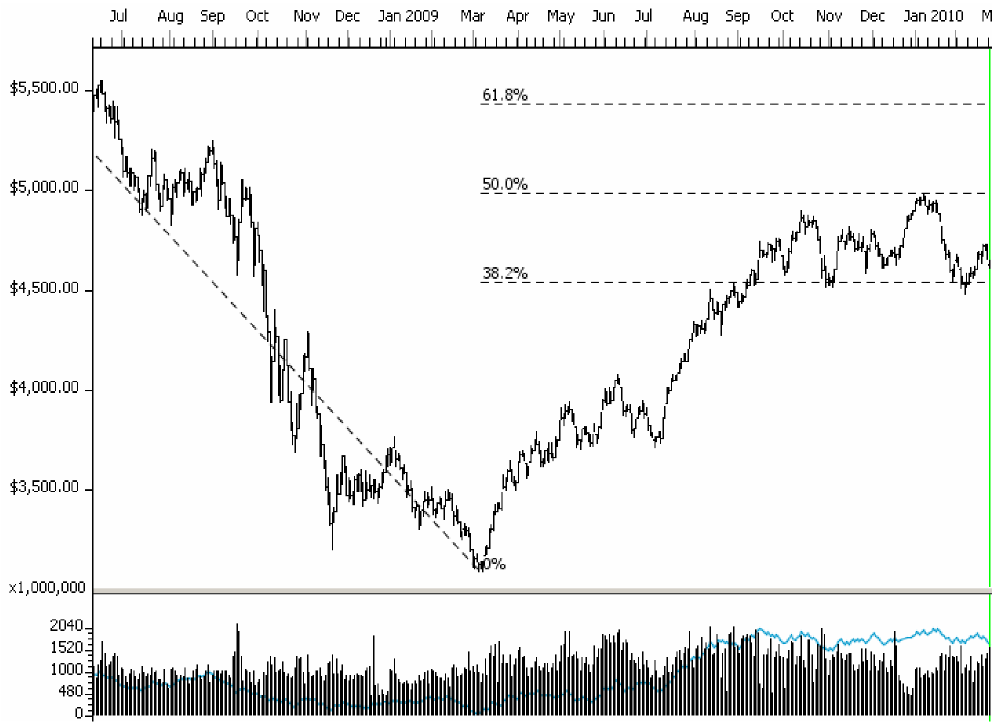
History is interesting but the real issue is "Where are we now and where are we going?"
I generally decline any attempts at forecasting the market, however there are some technical levels that are worthy of comment. In the Friday Broadcast a couple of weeks ago I mentioned a small head and shoulder reversal pattern. We have now well and truly broken through the neckline.

As near as I can tell we have a target of 4981 on the All Ords. (H & S low 4483, high 4732, diff = 249 points) And guess what? The high on the All Ords was on the 11th Jan at 4984. This would give us a "double top".

I see the area between 4950 and 5000 as absolutely critical. Two or three closes above the 5000 level would bury any possibility of another big wave down and herald the beginning of a new strong market leading to a bull market and then the next "crash", about 5 to 6 years down the road.

# Broking Issues




**Remember your risk level in any trade is the amount of money you are willing to spend to find out if you are right or wrong.**

| Index Performance for February 2010 | | |
|---|---|---|
| XAO | +55 | +1.2% |
| XJO | +68 | +1.5% |
| XPJ | -2 | -0.2% |
| XMJ | +244 | +2.1% |
| XIJ | +13 | +1.9% |
| XHJ | +321 | +3.8% |
| XNJ | +5 | +0.1% |

The All Ordinaries closed out February at 4651 for a gain of 55 points or 1.2%. Nice to see most of the indices turning green.

There was quite a lot of reporting to digest. CBA had a major profit surge with a first half (1H) net profit of A$2.91 billion and announced an increased dividend to $1.20. Great results for our banks all round really, with Bendigo & Adelaide Bank doubling their 1H net profit to A$104.1 M.

RIO announced a full year net profit of US$4.87 billion with a final dividend of US$0.45. Newcrest Mining announced an underlying profit increase of 10% despite revenues down 8%. Paladin Energy had a 1H loss of US$19M.

Qantas' 1H net profit was down 72% year on year. They have planned a $400M upgrade to seats and entertainment on their 747 fleet. Anyone who has flown with Qantas recently will know this is well overdue.

Bluescope Steel had a A$28M 1H loss but expected to post a full year profit.

WA Newspapers' profit was down 15% to A$49.5M and Boral also posted a profit fall, down 9% with a warning of a subdued second half.

Telstra's share price fell to a record low of $2.88 in early March prompting the head of the Australian Shareholders Association to urge shareholders to start lobbying their MPs. Pretty desperate stuff you'd think?

The rival bids for AXA from NAB and AMP have been referred to the ACCC who will give their rulings in April.

A bit of a mixed bag we think you would agree, but our banks seem in very good shape indeed unlike many of their offshore counterparts.

# Company Profile

## Definition

### Asset Backing

Asset backing is the net assets of the company in dollar terms, divided by the number of shares on issue.

If a company has $1M in net assets and 100,000 shares the asset backing is $10 per share.

| GICS Industry Group Codes | |
|---|---|
| 1010 | Energy |
| 1510 | Materials |
| 2010 | Capital Goods |
| 2020 | Commercial Services & Supplies |
| 2030 | Transportation |
| 2510 | Automobile & Components |
| 2520 | Consumer Durables & Apparel |
| 2530 | Hotels Restaurants & Leisure |
| 2540 | Media |
| 2550 | Retailing |
| 3010 | Food & Drug Retailing |
| 3020 | Food Beverage & Tobacco |
| 3030 | Household & Personal Products |
| 3510 | Healthcare Equipment & Services |
| 3520 | Pharmaceuticals & Biotechnology |
| 4010 | Banks |
| 4020 | Diversified Financials |
| 4030 | Insurance |
| 4040 | Real Estate |
| 4510 | Software & Services |
| 4520 | Technology Hardware & Equipment |
| 5010 | Telecommunications Services |
| 5510 | Utilities |

## Antares Energy (AZZ)


This is currently a recommendation in our Black Gold Report, and we like this one. Anatares Energy is a Perth-based hydrocarbon exploration and production operation. Their four core projects are based in the Texas Gulf region, and they've just raised some cash to develop their oil shale acreage.

One of the major worries when investing in a junior oiler is capital raising. No sooner do you buy the stock when they raise capital for another project, and the share price drops from the dilution. Well AZZ has just completed such a raising, and did so with little difficulty. So this coincides nicely with how things look on a technical basis.

Technically, the stock has currently just broken above a 30-day moving average. As you can see, there is a Darvas Box pattern on the chart.

There is resistance at around the 78 cent level with sloping support giving a triangle pattern also. We've drawn the pattern on the chart and indicated the higher lows emerging.

OBV remained relatively flat during the first and larger of the two most recent pull backs, always a good sign.

An order for a  buy on a break of the 77 cent level with an initial stop loss order at 67 cents would be recommended.

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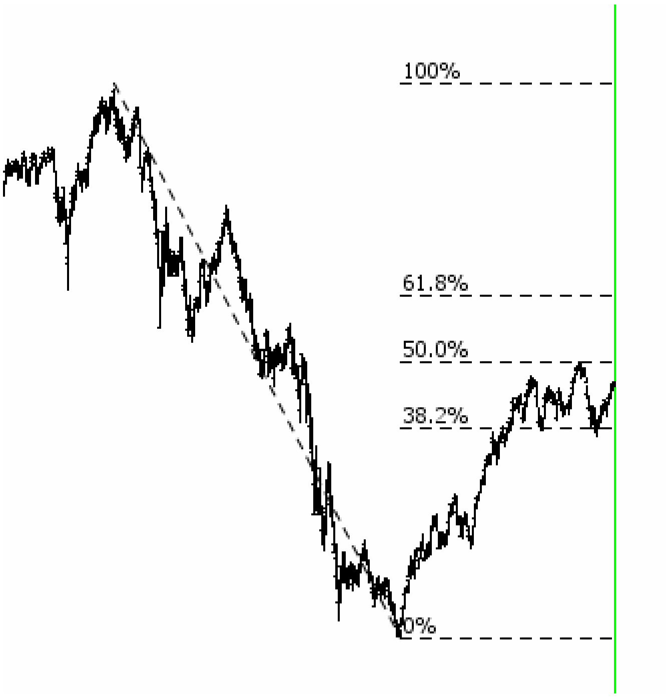
# Technical Issues

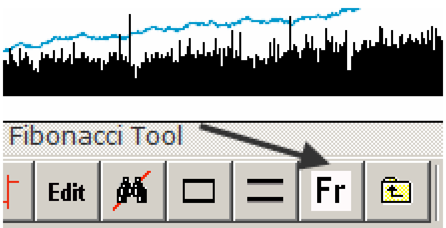
## The Fibonacci Retracement Tool

Fibonacci Retracement lines are used by traders to measure the retracement (either and increase from a previous downtrend, or a decrease from an previous uptrend) in a stock's price. The lines are drawn either from a significant high to a significant low, or conversely, from a low to a high.

In the figure on the right you can see a retracement line drawn from the significant high in November 2007 to the significant low in March 2009. The values from 0% to 100% represent the retracement of the price from the low point.

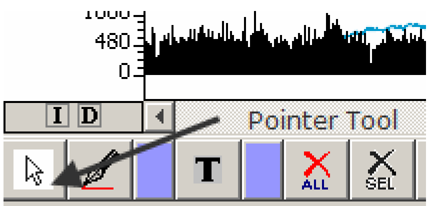
As can be seen we have been having great difficulty for several months now to break though the 50% retracement level.

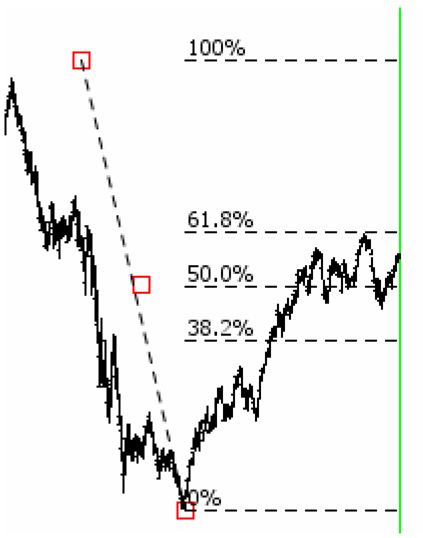



The Fibonacci Retracement tool may be found on the drawing toolbar. Click on the **Fr** icon, and then click on a significant point on the chart, and drag a line out to another significant either high or low point.

The lines drawn remain on the chart until deleted, i.e. they remain even after the application has been closed. Opening the chart again will reveal the line study.




Just like all other lines, the Fibonacci retracements may be moved and adjusted for position etc. To do this, click on the pointer tool icon, and then click on the trendline portion of the retracement lines.

This will give three anchor points. The top and bottom points may be used to adjust the trendline and the middle anchor will move the entire line study as one.

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