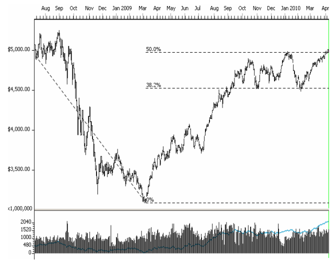
Issue 11: May 2010

The Visual Investor

And Then the Wheels Fell Off!



Gutless Performance!

It never fails to amaze us how totally irrational the Australian market can be. Here we are, the shining light of the OECD, with an apparently booming economy worrying our monetary policy drivers, but with a stock market driven by nincompoops!

As we mentioned last month, Australian investors tend to be more pessimistic than their US counterparts. This was very evident at the end of April with massive over-reaction to offshore debt issues causing shock waves globally. However, while the Yanks reacted negatively and then recovered, we reacted negatively and then just stayed negative and pessimistic, all for no apparent reason; totally gutless! Now it's not your Mum and Dad investors who are reacting like this, it's your institutional screen jockeys and 'analysts'. Headless chooks spring to mind.

We nearly choked on our Wheaties on the morning of the 5th May. The ABC in Perth led with the headline that global stocks had tumbled over night on the back of Kevin 07's proposal to tax big profit resource companies! Give us a break please, and spare us from this journalistic tom foolery; Wall St doesn't even know where Australia is, let alone any inkling of our illustrious PM's machinations.

What had actually happened was that there was absolute panic in Europe and the US for no apparent reason other than rumours of sovereign debt contagion in the Eurozone. The Greek bailout by Brussels and the IMF was a done deal, but hey panic anyway! Moody's were now sizing up the Portugese banks for a rating review, and markets were reacting to this possible spread of the sovereign debt cancer.

Moody's by the way were one of the ratings agencies that gave the toxic asset securities the big thumbs up prior to the financial meltdown; don't get us started on ratings agencies and the trails of destruction they leave in their wakes.

Whatever the outcome from the mooted Resource Super Profits Tax grab is, we suspect that the proposed 40% impost is just an ambit position and is likely to end up mollified somewhat by tax rebates and other arrangements. We're betting on an increase of the threshold level from the 10-year bond rate, to the LTBR plus a percentage, similar to the Petroleum Resource Rent Tax. Either way it will be an interesting run up to the Federal election with huge implications for investment in the Australian resource sector.

MARKET VIEW

Frank Watkins

In early April we poked our nose above the 5000 level and received a great dose of hope. The market has fallen 700 points since with nothing immune from the downturn. The banks, the resources, the Aussie dollar, the Greeks, the PIIGS and the metals have all taken a pounding. I have started to write this article five times but each interruption of one day changes the total complexion of anything that was written 24 hours ago.

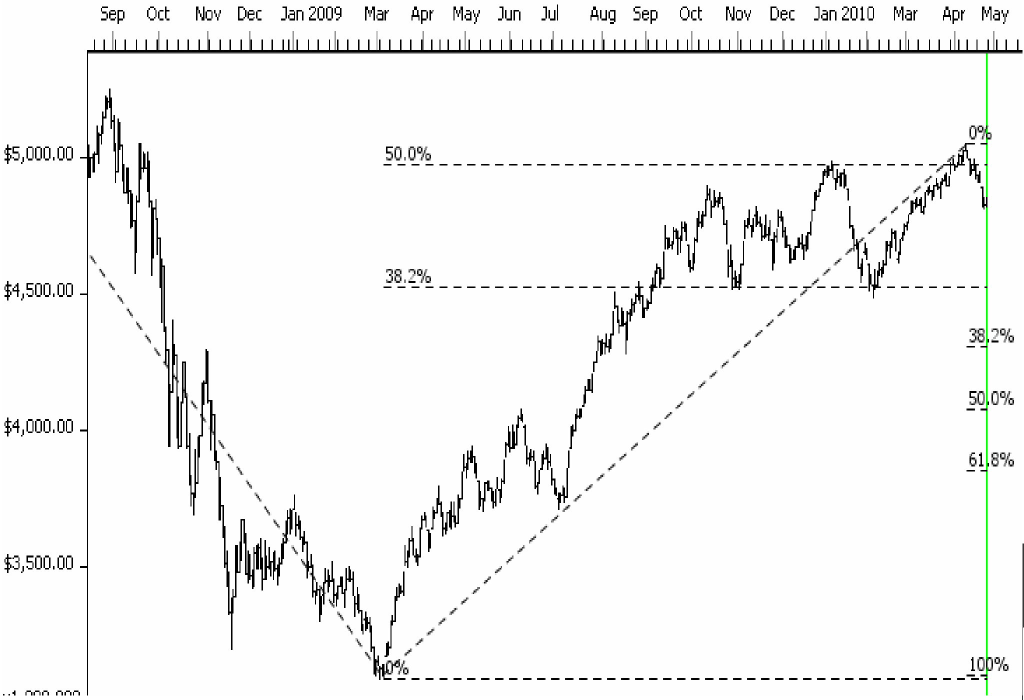
We often have heated discussions in the office regarding market direction. The real issue however is whether you can make money from whatever thought you have. That has been extremely difficult of late. I cannot remember any market ever being so tough to trade. False breakouts (see PRU) leave one exasperated, stop losses being triggered too often make you cranky, buy and hold has cost a lot, very little is "working" (my definition of "working" is being profitable). The penny dreadful stocks that were on the run have hit a brick wall.

I can easily make a case for a bullish or a bearish scenario. The bearish scenario is obvious, in a word, Europe, in two words Kevin Rudd and in three words, resource super tax. Now we just need the bubble in China to burst or for North and South Korea to exchange something a little heavier than hello and goodbye.

The bullish scenario is that the US is definitely showing signs of recovery. It is usually the US that sends us downhill (emanating from Wall Street, leverage, derivatives and manipulation) but it is also the US that leads us out of trouble. The other issue is China, I believe we have a few years of "The China Boom" yet to come. I could write a book on both scenarios—that's what fundamental analysis is all about.

So lets fall back on our technicals. I explained these on the 21st May Friday Broadcast. I can see the XAO touching (possibly) 4080, then recovery to new highs.

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 April 2010		
XAO	-64	-1.3%
XJO	-73	-1.5%
XPJ	+32	+3.7%
XMJ	-566	-4.4%
XIJ	-24	-3.3%
XHJ	-622	-6.9%
XNJ	-61	-1.5%

The All Ordinaries closed out April at 4833 for a loss of 64 points or -1.3%. This was a disappointing result as it was hoped that the optimistic outlook from the breach of the 5000 point level would feed positive market sentiment. Eurozone debt issues soon put a lid on any optimism.

Many investors are perplexed as to what impact Greek sovereign debt issues should have on our market. We are in relatively good shape economically, but the market is looking at a bigger picture. The fear is that the Eurozone debt problem will stifle growth in Europe, and therefore demand for US goods and services. This in turn has implications for the US economic recovery and this is what is worrying Wall St.

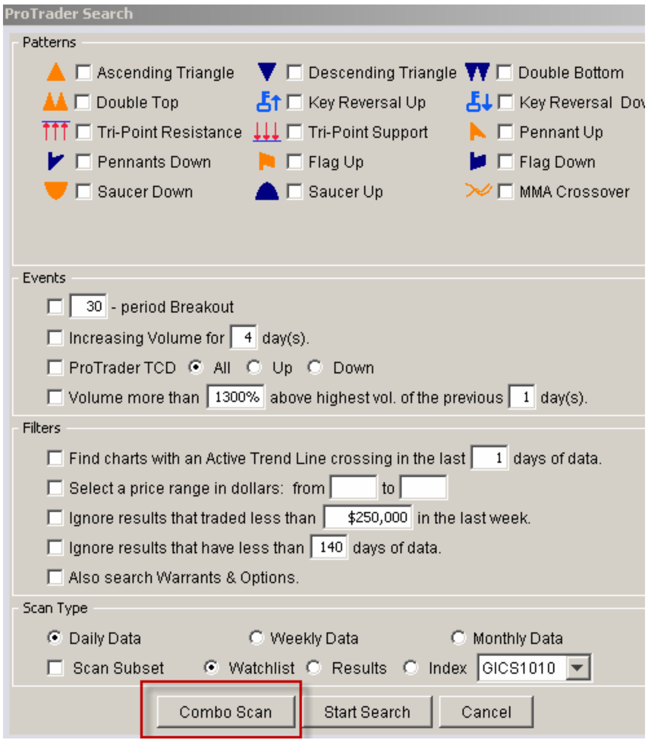
Additionally, the move by the Obama administration to overhaul the regulations of financial markets which were relaxed under the Clinton and Bush adminstrations, has spooked Wall St. The US banking sector in particular does not like this move at all, but it looks like it is politically unsavoury to be seen to be standing in the way of tougher regulation of those who are seen as the architects of the GFC.

A possible slow down of the US recovery is seen as a big negative for China ,and the demand for commodities. This has been a major problem for resource based economies such as Australia, and has impacted our markets and exchange rates. All of this coupled with uncertainty surrounding the announced resource 'Super Profits' tax has seen our markets badly hit. So it seems Australian investors have a double whammy of domestic and global issue to contend with.

It is quite clear that a lot of the market movement is a reaction to conjecture and 'analysis' rather than solid numbers. Indeed, much of the economic and company reporting numbers from the US have been very positive indeed. However, the positive news is being drowned out by analytical 'noise'. Only time will tell when sanity will prevail and some semblance of order returns.

Technical Issues

The Combo Scan



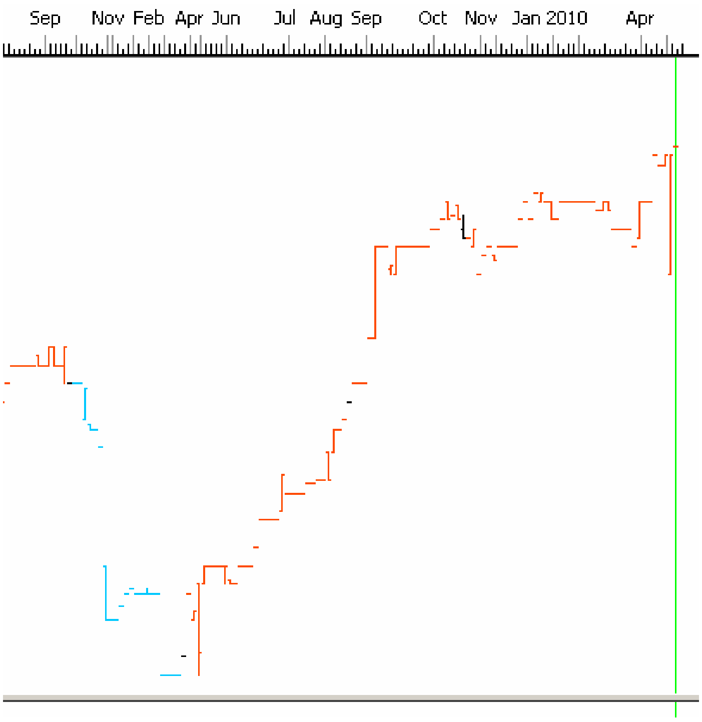
We are often asked about the Combo Scan available in the main scan dialog. The Combo Scan is designed to find rising stocks with qualifying volume activity.

In order for a stock to qualify in this scan it must fulfil certain criteria:

- it must be in a upward trend
- there must be a volume spike within the last 20 days
- today's price is an x-day high closing price

The default values are 30-day high and a 1300% volume spike, but these values may be altered by changing the numbers in the Breakout period text box or the parameters for the 'volume more that x above the highest vol of the previous x days' event.

One thing to note is that we are looking for the highest closing price, not the high price.



In this result we see that the stock price is in an upward trend, coloured red, and today's price is the highest closing price for at least 30 days.

Some traders use the Combo Scan itself as a buy signal, but perhaps it is better to find good trending stocks making new highs, and then waiting for a breakout from more substantial resistance.

Whichever method you use we recommend you try the Combo Scan every day as it can bring up some excellent potential trading candidates.

Financial Planning

Margin Lending

The Government has enacted new laws regulating margin lending to individuals (retail clients). The main change is that margin lending providers and advisers **must** be licensed by the Australian Securities and Investments Commission (ASIC).

Specific product disclosure statements will be required for margin lending. 'Margin lending' is where investors borrow money to buy financial products such as listed shares. These underlying financial products are then used to secure the loan for those products.)

The reasons for the changes are:

- **Opes Prime style arrangements:** Opes Prime and Tricom were using arrangements promoted as 'margin loans' to the consumer. However, these arrangements were more related to stock lending. Concerns were that consumers were misled.
- **Double gearing:** Some clients who entered into margin loans were at risk of losing their homes due to double gearing strategies. Double gearing is where clients borrow funds against the equity in their homes and use them as their equity contribution to a margin loan.
- **Margin calls notice:** There were doubts as to whether the adviser or lender is responsible for notifying a client of a margin call. Failure to notify a client in a timely manner can result in significant losses.

GENERAL ADVICE WARNING

The information contained in this publication may be regarded as general advice only. That is, your personal objectives, needs or financial situations were not taken into account when preparing this publication.

You should consider the appropriateness of any general advice we have given you, having regard to your own objectives, financial situation and needs before acting on it.

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