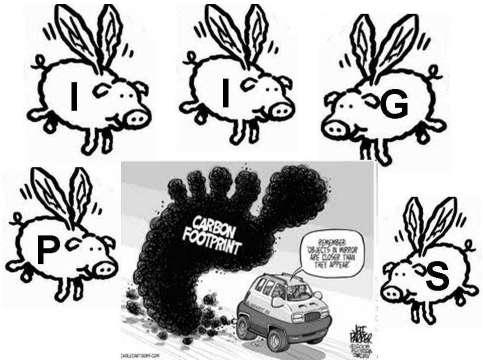
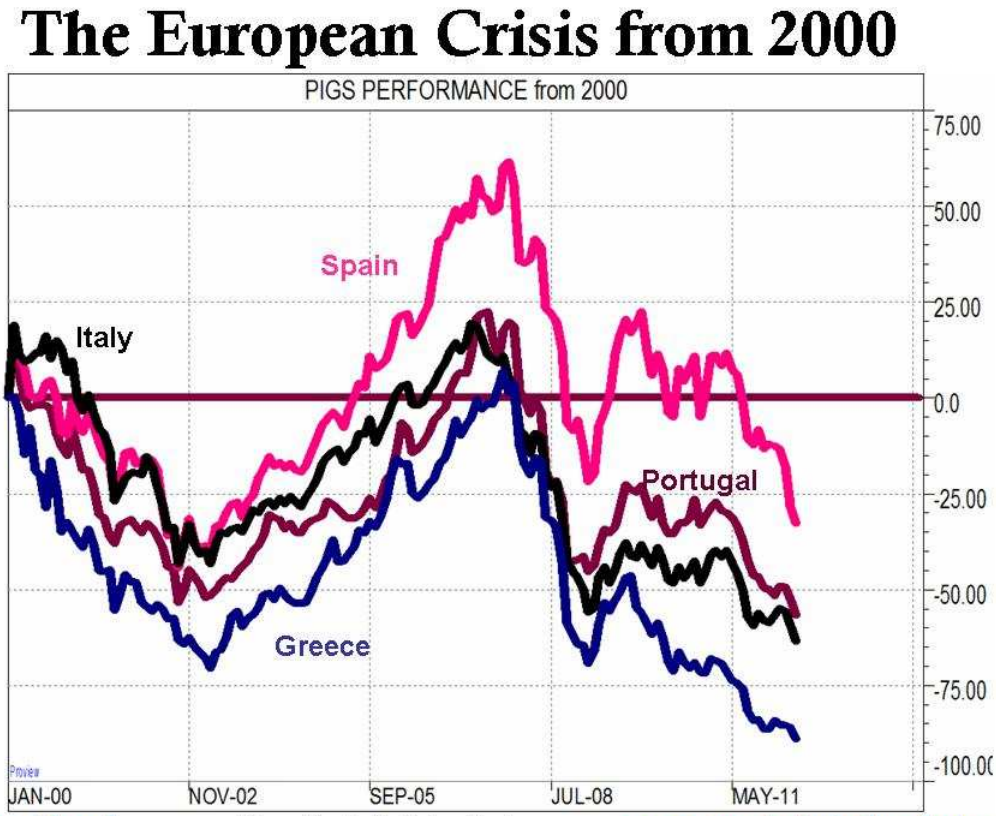
Regina Meani
Your Technical Analyst
analysing financial markets

20 May, 2012

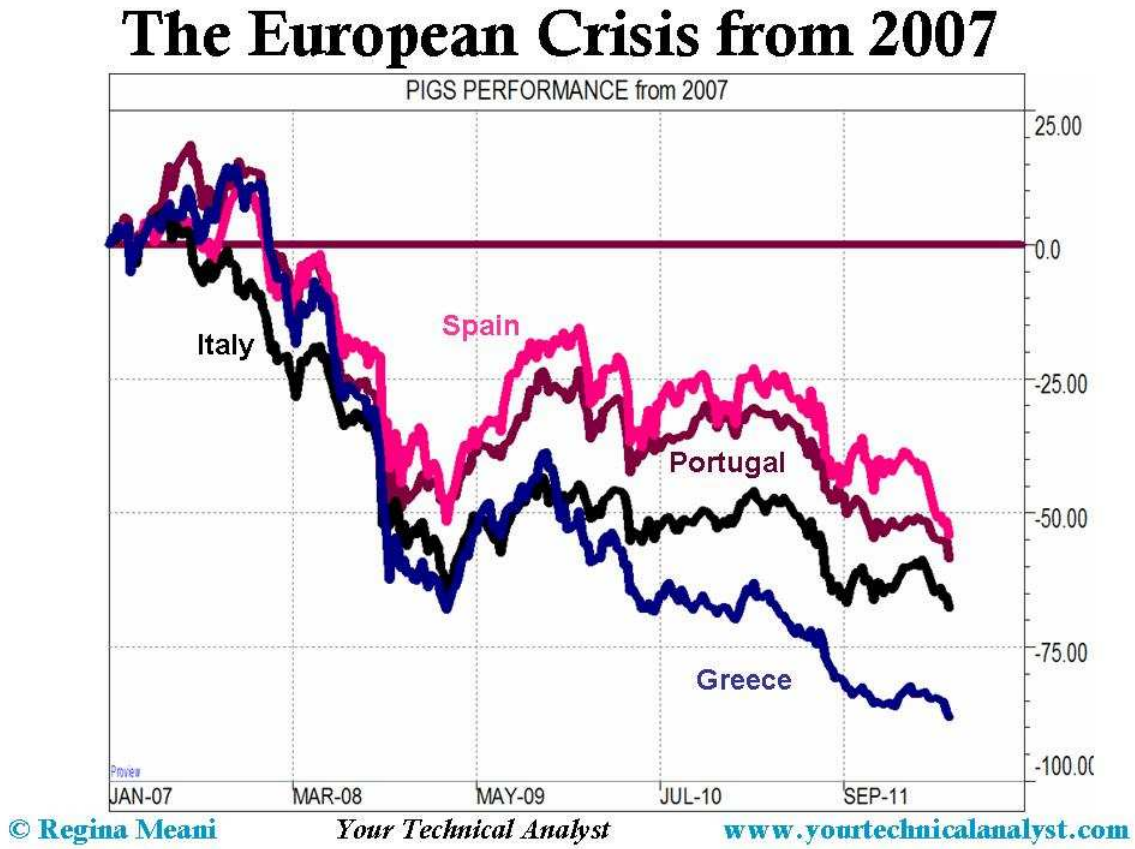


Will the Dominoes continue to Fall?

The knock-on effect of the European crisis was only too evident last week in the US and Australian Markets. The accompanying charts highlight the severity of the decline for the European PIGS from 2000 and from the onset of the financial crisis from 2007. The question is will we continue to be buffeted from overseas and will our own domestic turmoil contribute even more?



While there are some positive aspects appearing on the individual charts for the Europeans, it is still obvious that Greece remains the most threatened.



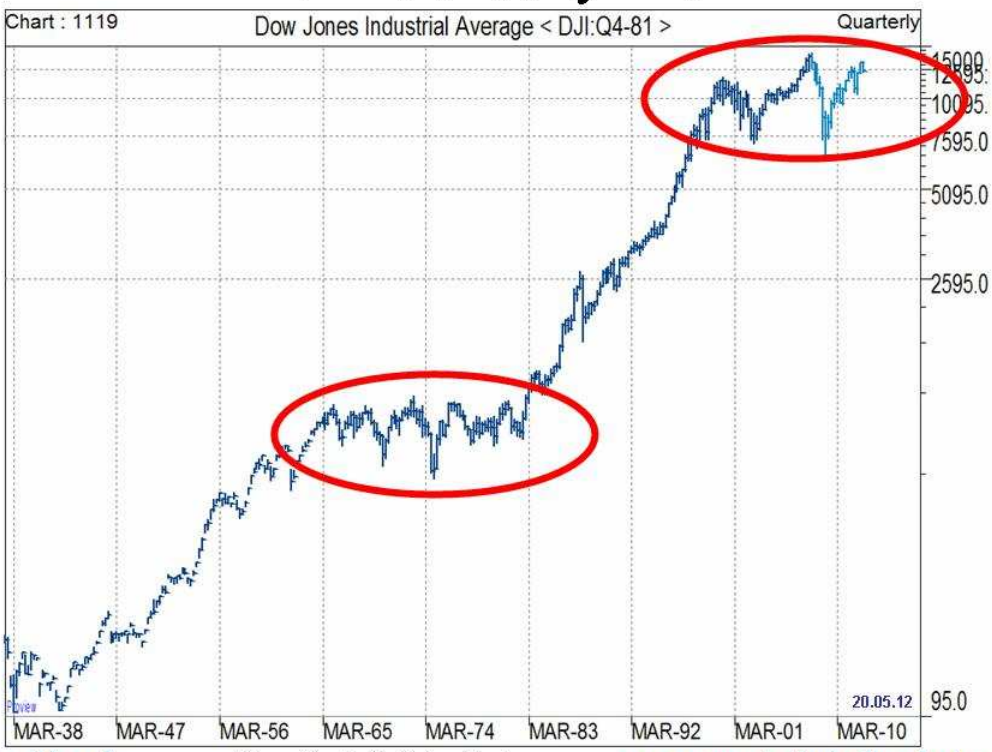
As we track the US path we find that the Dow is close to testing key support and that the Australian market is still riding within its long-term upward trend.

New York Dow Jones 12369 points

A 20th Century Fit

It has been my long held view that the New York market is performing within a similar style phase to that it experienced between 1964 and 1982. Moving sideways for eighteen years the market then took off and rose for eighteen years before halting in 1999 and entering a similar sideways phase. As the phase has progressed the low point achieved in 2009 equated to the 1974 low with the market rises in May last year and again on 1 May this year (to 13338), bearing marked resemblances to the upward pushes in 1976 and in 1981. In 1976 the index reached within 3.8% of its peak within the pattern but in May 2011 the market was nearly 9.5% short of the pattern peak. More recently with the rise to 13338 the index came within 6.6% of its peak. Comparable momentum between the late 1970s and early 1980s tends to suggest that there is limited pattern leeway on the upside for the New York market, with the 13700-800 equating to the 70s and 80s, and indicates that there will not be a significantly new high or low in the US as we advance into the later stages of 2012.

A 20th Century Fit



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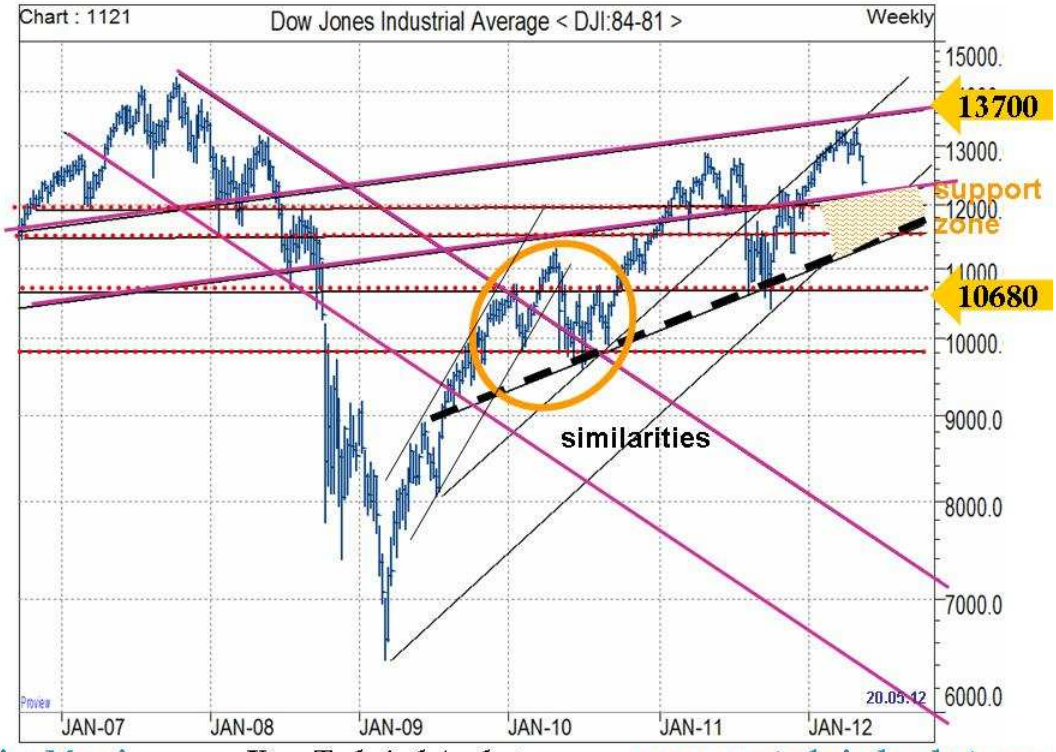
Coming in for a closer look we find that on the weekly chart there have been strong similarities both in movement and momentum to 2009-2010 when the index pushed higher along a restrictive line which finally rebuffed the advance sending the market into pullback and decline. The recent rebuff that the US experienced on May Day is almost parallel to the volatility and downturn felt in the early part of 2010. Keeping this in mind, it suggests that the Dow will seek key support in the 11500-12000 area.

Back from the Barrier



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Post Script: The horn formation which developed between February and May on the daily chart for the Dow Jones is remarkably similar to what I remember as having tipped the 1987 crash, food for thought!!

Australian All Ordinaries Index 4099 points

A 2007 Hangover

As with the New York market my view for the Australian market is largely unchanged and I have copied the following from a report I wrote in December 2011:

The long-term upward path for the Australian market is strongly underpinned and my view remains that it will continue unthreatened into 2012 and beyond. Having said that, there is a caveat that some unrealised downward targets within that trend may need to come into play. The long-term chart highlights the similarities between the 1968-9 peak and that experienced in 2007, but the recent phase has experienced higher volatility and the recent low at 2009 bears a stronger resemblance to the 1971 dip which leaves some uncertainty as to whether the index needs to connect with the longer term trend as it did with the low in 1974 and would indicate a risk towards the 3500-3700 region before the upward path can be fully regained.

In December I concluded that: *The wider phase parameters lie between 4000 and 4550 with internal trigger points at 4080 and 4250 then higher at 4425 with the index needing to push past 4750 to break the 2007 downward trend. As we move towards 2012 it is not impossible for the market to test its upper barriers but its vulnerability remains high and is threatened by the 2007 overhang.*

Not exactly but…

The past two weeks have seen the Australian market fall heavily recoiling from the barrier zone located around 4500 inline with the above parameters.

What we need to gauge is the strength of approaching support around 4000 and whether the index needs to reconnect with its long-term trend in the 3500-3700 range.

Going forward, the magnitude of the two-week sell-off and the close proximity of significant support indicate the likelihood for a bounce and rally with its first step higher on a move back above 4120 to 4150 followed by resistance aligned between 4250 and 4350. Then the old parameters come into play with the 2007 downtrend now running through at about 4600.

As there is not yet enough evidence to indicate that a rally in the short-term could prove to support a stronger recovery, I retain the more cautious stance that the market is still threatened by the 2007 overhang, but that the long-term path can still be maintained and perhaps the next little while will provide some selective buying opportunities for the game at heart.

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