

Welcome to TheMarket.co.za Weekly Analysis Report

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By Colin Abrams

Contents:

Intro and Exec Summary	3. <i>Relative Strength</i>	6. <i>Overall Summary</i>
1. <i>Market Charts</i>	4. <i>Notes & Updates</i>	7. <i>Glossary (in first letter of each month)</i>
2. <i>Small-Cap Chart</i>	5. <i>"Shortable" Stocks/Indices</i>	

Classic Trading Rule:**"If the market doesn't perform as expected, exit on the first reaction."****SIDEWAYS BEFORE A BREAKOUT****Introduction:**

The overall market (All Share index) has moved sideways over the past week. As such, it's building up for a breakout, which admittedly can be in either direction. It may well be to the upside, for a retest of its all time high. The important breakout level is shown here. Nevertheless, if that does happen, it doesn't take away from the fact that the local (and overseas) markets are still dangerously high. The trend is still up, but trailing stops need to be monitored extra closely. We start with a short-term look at the **Dow Jones**. It is now going up at a steeper angle, heading perhaps towards a climactic top. We also show a chart of London's **FTSE-100 index**. While it has gone mostly sideways over the past two weeks, it is in the final leg of its current uptrend. The **JSE All share** chart shows the important short-term levels to monitor. We also look at the **USD/Rand**, which having reached its targets, is now pointing to continued rand weakness for a while. The stock charts shown are **Truwths** (sell short signal), **SABMiller** (short-term upside breakout), and **Newgold** (potential buy signal lining up).

The small-cap chart is **Stefstock**, a construction stock that is showing positive signs.

Overall, the local market continues to hold up, despite numerous danger signs lining up. It all depends on the US stock indices, and until they break support, we'll continue drifting up. Nevertheless, the downturn in stock prices, when it happens will be large, I believe. The focus therefore is still on protecting current profits. Short selling should not be done until support levels shown herein get broken.

Executive Summary:

- **Dow (chart 1):** Tighten trailing stops further, to a close below line 2.
 - **FTSE-100 Inx (chart 2):** Traders sell short on a close below line A.
 - **All Share Inx (chart 3):** Continue to tighten stops to a close below line 1.
 - **USD/ZAR (chart 4):** Sell short the ZAR on a pullback.
 - **Truwths (chart 5):** Sell short at current levels. But reverse and go long if stop gets triggered.
 - **SABMiller (chart 6):** Buy at current levels or better (e.g. R141) for more short-term upside.
 - **Newgold (chart 7):** Buy on a close above line 1 (R92.96).
 - **Stefstock (chart 8):** Buy at current levels. If it pulls back then buy more.
- Leading Stocks (3-mths): Top 40** – ARM, Implats, Exxaro, Kumba-IO, Anglo, Billiton, Richemont.
Resources 20 - Wesizwe, Metorex, ARM, Implats, Exxaro.
- **Shortable stocks/indices:** 17 stocks, 0 indexes, 1 commodity, 0 currencies.

1. MARKET CHARTS

DOW JONES – Support keeps holding for now

Broad Recommendation: HOLD/TIGHTEN TRAILING STOPS FURTHER

Trend: Up, but short and med-term overbought.

Strategy: Tighten trailing stops further, to a close below line 2.

Chart 1. (Daily)

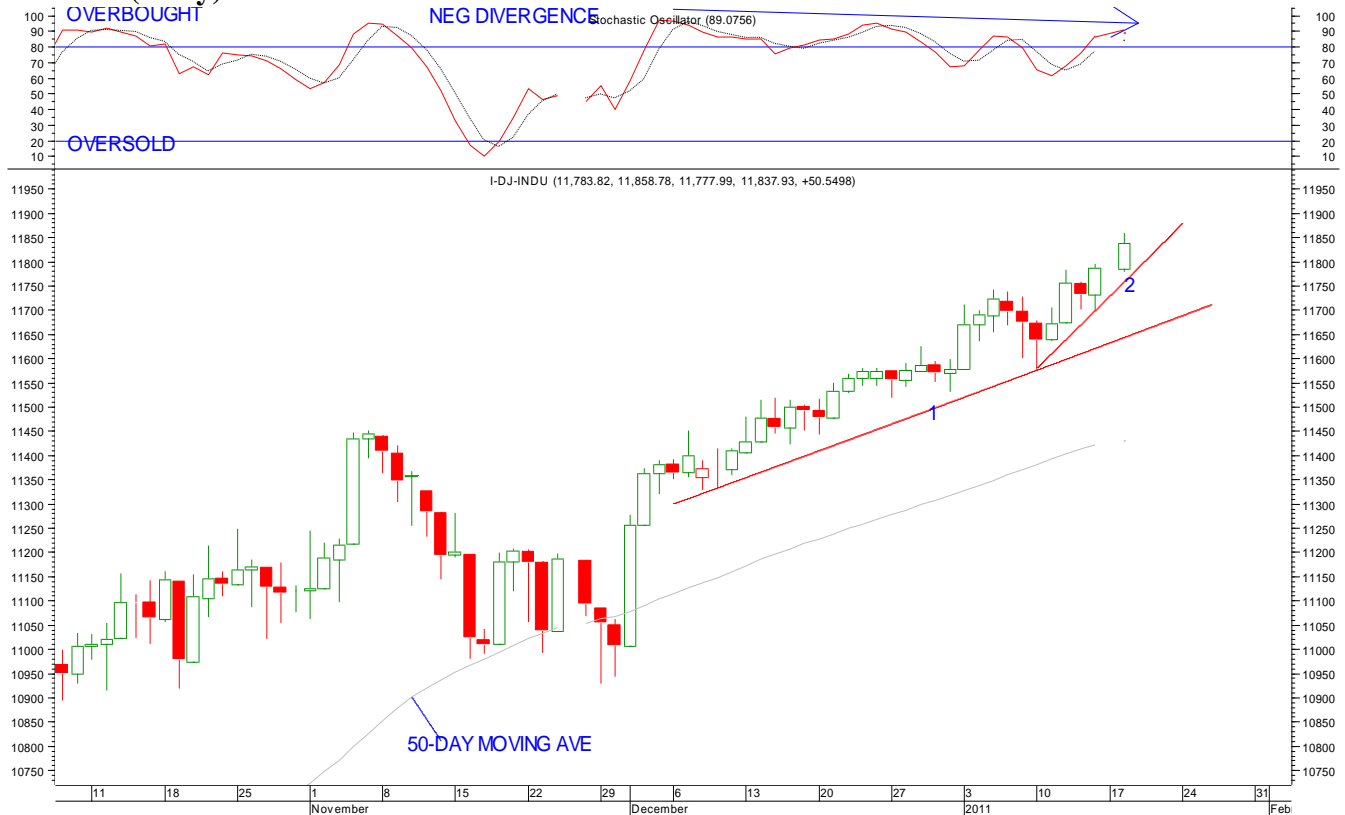


Chart Setup: The Dow continues edging ever higher. Line 2 is now very short-term support. Line 1 is still the main short-term support line. I still believe, based on the charts, the price is coming towards the end of a 2-year bull run. But it can continue drifting up a bit more in the immediate short-term.

- The short-term Stochastic Oscillator (on top) is giving a series of negative divergences (see Glossary) from its overbought level, which is warning of a correction to come. The price needs to break down below line 32 to start it.

Strategy Details: Keep holding, but tighten your stops further, to a close below line 2. (Line 2 is at 11 758 on Weds night 19th, and line 2 is rising at a angle of 30 pts per day thereafter). Short-term traders take all profits then. Med-term players exit half your positions, and then exit the other half on a close below line 1. (Line 1 is at 11 645 on Weds night 19th and rising at a angle of 10 pts per day thereafter).

- All traders to sell short on a close below line 1.

Target: Lock in some profit above 11 900. The index can still go to 12 200. If it does get near the then take more profits.

Stop-loss: Current stop is a close below line 2, as disused above. When the short signal triggers, place your initial stop as a close above 11 850.

FTSE-100 INDEX – Near the end?

Broad Recommendation: WAIT FOR SHORT SIGNAL

Trend: Up but med-term overbought.

Strategy: Traders sell short on a close below line A.

Chart 2. (Daily)

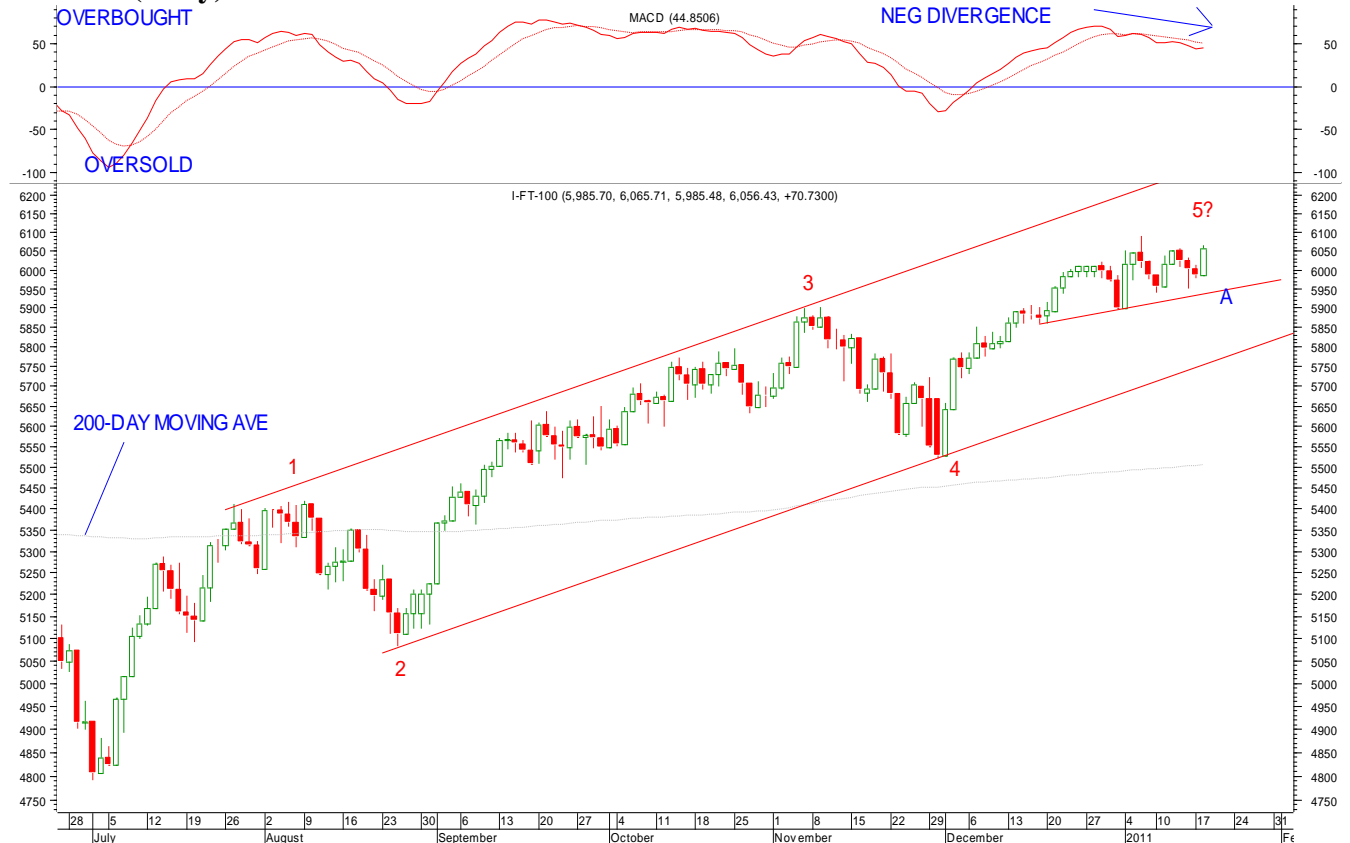


Chart Setup: The red numbers show the Elliot Wave pattern (see Glossary). Elliot postulates five waves in the main trend. The ‘footsie’ is now well into its 5th and final wave (as labelled). The only question, to my mind, is how long this fifth wave takes to finally complete. Short-term support is shown (line A).

- Importantly, the MACD (on top) is giving another negative divergence from its overbought level, which is an early warning of a correction to come. If you look more clearly, you’ll see this is merely part of a much larger divergence going back to September. I do still believe the drop, when it comes, will be very large.

Strategy Details: Sell short on a close below line A (not before then). (Line A is at 5940 on Weds 19th and is rising at an angle of 3 pts per day thereafter). (Spot price, not futures price).

- Sell short further when the larger support line eventually gets broken as well (it’s currently at 5780). At that point investors should reduce their holdings.

Target: While the index can still continue up to 6170, a break below line A will set up a drop to the larger support line at 5780. Once it breaks down and closes below there, expect a minimum drop to 5300.

Stop-loss: Once the short signal is triggered, the initial stop will be a close above 5056.

JSE ALL SHARE INDEX – Firm, but with danger signs

Broad Recommendation: HOLD/CONTINUE TO TIGHTEN STOPS

Trend: Up, but med-term overbought.

Strategy: Continue to tighten stops to a close below line 1.

Chart 3. (Weekly)

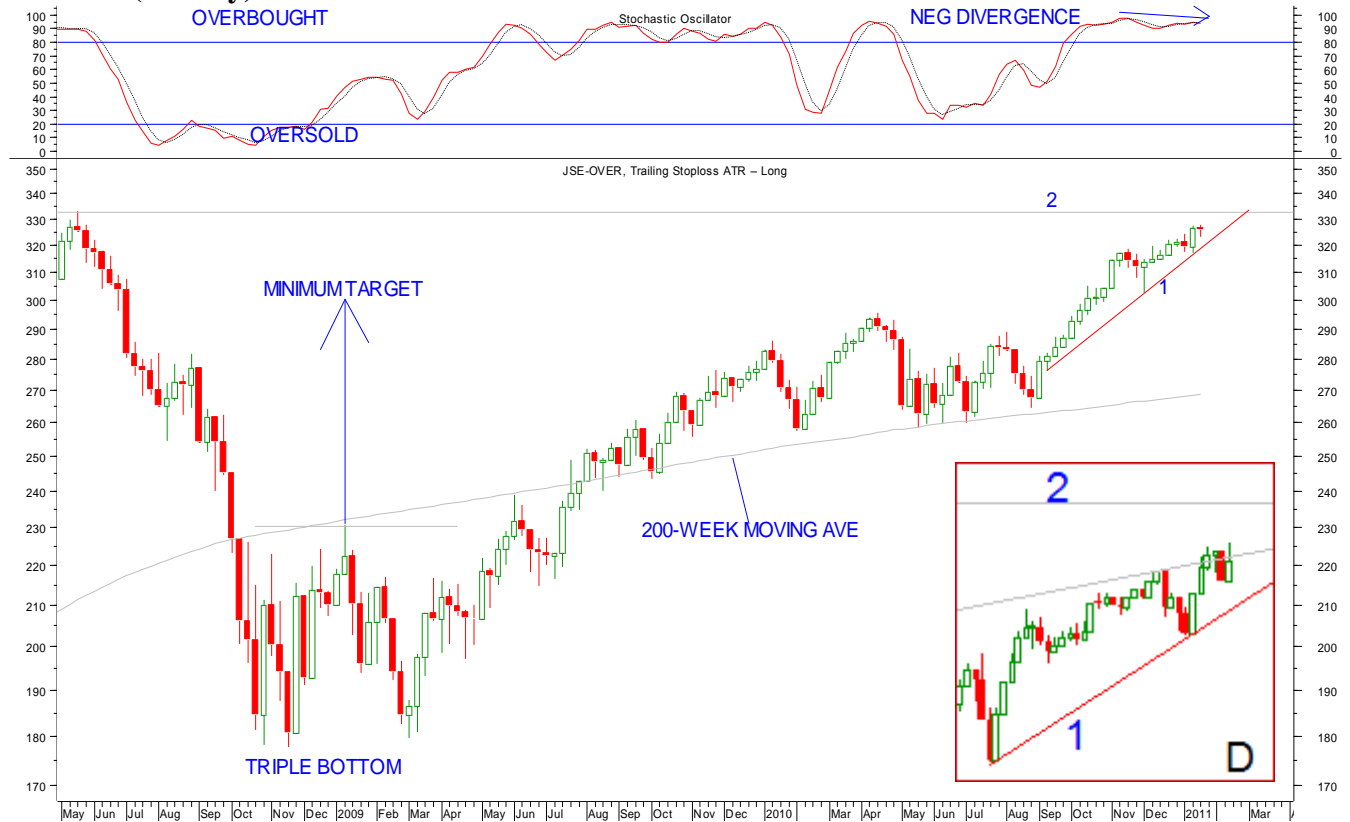


Chart Setup: The bigger picture shows the bull market, which started in late-2008. Subscribers were advised to get back into stocks in April/May 2009. The index at that time formed a triple bottom (as labelled) and eventually reached its minimum target late last year. The index is edging towards its all time high (line 2). But it may not get there. Line 1 is critical support.

- The weekly Stochastic Oscillator (on top) is giving a negative divergence from its overbought region, which is an early warning of a correction to come. The price needs to break line 1 to confirm the start of the correction.

Strategy Details: Short and med-term players exit all long positions on a daily close below line 1. (Line 1 is at 32 000 on Weds 19th and rising at an angle of 50 pts per day thereafter). (See inset for a close-up daily chart).

- Investors reduce holdings further then (but don't sell out completely).
- All traders then to sell short. But right now, a close above 32 755 will be an aggressive buy signal for a rally to retest its all time high of 33 310. Stop then a close below 32 300.

Target: The index can still get to line 2, its all time high at 33 310. But the breakdown and close below line 1, will set up a drop back to its 200-week MA initially (27 000). From there we'll re-asses, but there is further downside potential thereafter e.g. to 26 000, and as much as 23 000.

Stop-loss: Current stops on longs are a daily close below line 1. For selling short on the breakdown, the stop will be an intraday break of the highest point reached on the current rally (before the breakdown).

USD/RAND – A change of trend

Broad Recommendation: SELL SHORT THE RAND

Trend: Short and med-term sideways. Long-term rand strength.

Strategy: Sell short the ZAR on a pullback.

Chart 4. (Weekly)

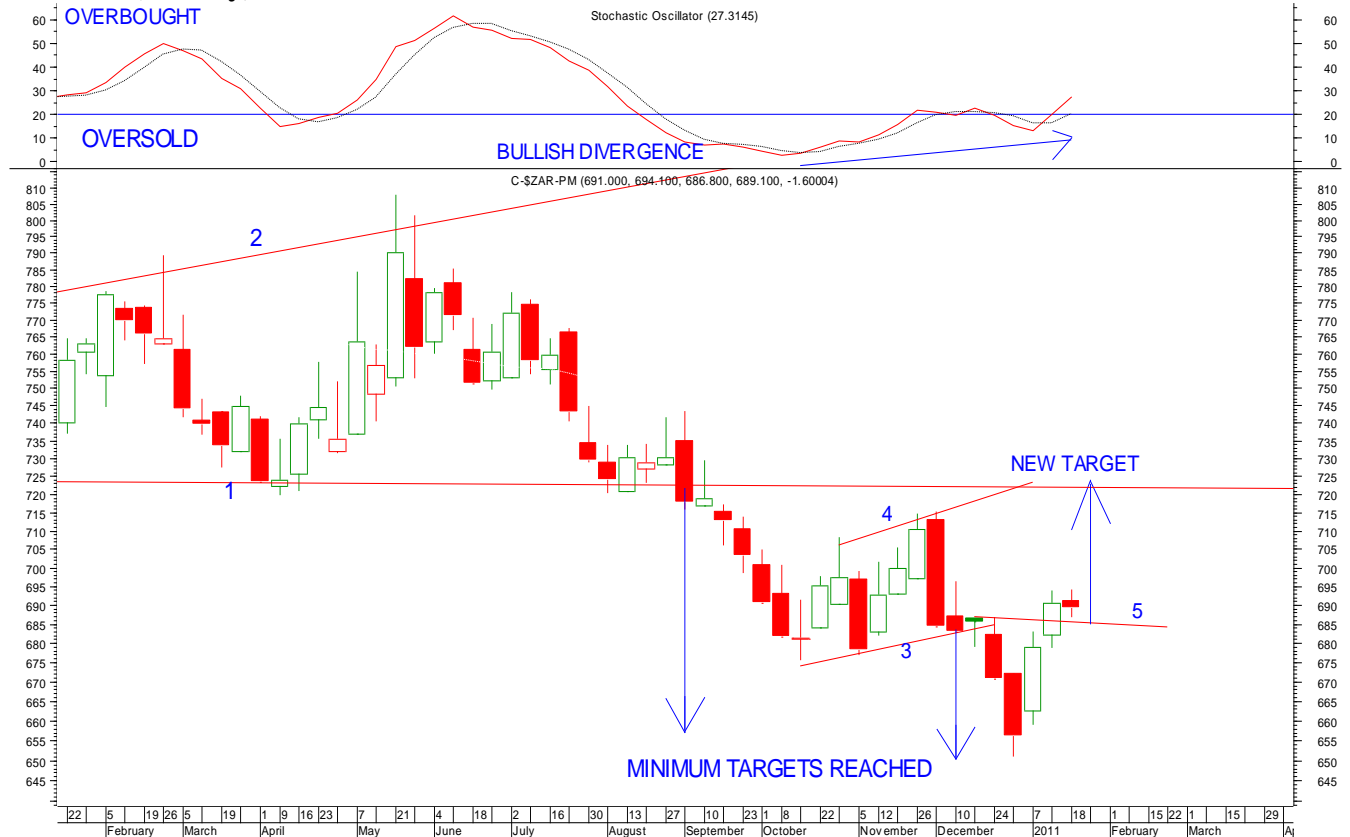


Chart Setup: The \$/ZAR reached both its downside targets (rand strength); the first one from a large broadening formation (lines 1 and 2), and the more recently from pattern 3-4 (shown here the last time we looked at this chart). It has now rebounded (rand weakness), and this looks set to continue.

- Importantly, the weekly Stochastic (on top) is showing a large positive divergence for the USD from its oversold level, which is a warning of a large correction in the rand to come.

Strategy Details: Sell short the rand on a dip to the 6.85 level. Pullbacks will remain shortable thereafter.

- Furthermore, an intraday break next week, of the high of this week, will be another short signal on the rand.

Target: Minimum target is 7.2250, based on the daily chart. (This is also back to line 1). While it's still too early to say, the currency can go back to 8.00. The really long-term trend though must favour rand strength, given the long-term problems with the USD.

Stop-loss: Initial stop is a close below 6.67 (spot price). Take short-term profits at the 7.22 target.

TRUWTHS (TRU) – Lower target

Broad Recommendation: TRADERS SELL SHORT (WITH CAUTION)

Trend: Short-term down. Med-term sideways. Long-term up.

Strategy: Sell short at current levels. But reverse and go long if stop gets triggered.

Chart 5. (Daily)



Chart Setup: Truwths has formed a large head and shoulders (as labelled), and closed below line 2 (the neckline) yesterday to confirm this bearish pattern. This pattern points to more downside to come.

- The RSI (on top) is oversold in the short-term, but will remain there longer if this breakdown continues.

Strategy Details: Sell short at current levels. Keep your stop as a close above line 3. If it closes above line 3 then buy back (i.e. cover) shorts and then go long. (Line 3 is at R71.60 on Weds 19th and declining at an angle of 20c per day thereafter).

- At this stage there's no reason for investors to be panicking. The larger uptrend here is still intact for now.

Target: Minimum downside target is R60.90 i.e. the height of the head hand shoulders projected down. (That is slightly below its 200-day moving ave). Line 1 support is slightly lower at R58.70 and can be reached.

- Note, in the less likely event of the price stopping out and triggering the 'reverse and go long' signal, then expect a move to over R80.

Stop-loss: Initial stop for shrts is a close above line 3 (see level above). Take at least half profits at R61 and use a breaking of prior 2 day high on the remainder as your trailing stop, while taking all profits at R59 if reached. If the long signal is triggered, the stop will be an intraday break of the low of the current sell-off.

SABMILLER (SAB) – Higher targets

Broad Recommendation: TRADERS BUY

Trend: Up on all main timeframes.

Strategy: Buy at current levels or better (e.g. R141) for more short-term upside.

Chart 6. (Daily)

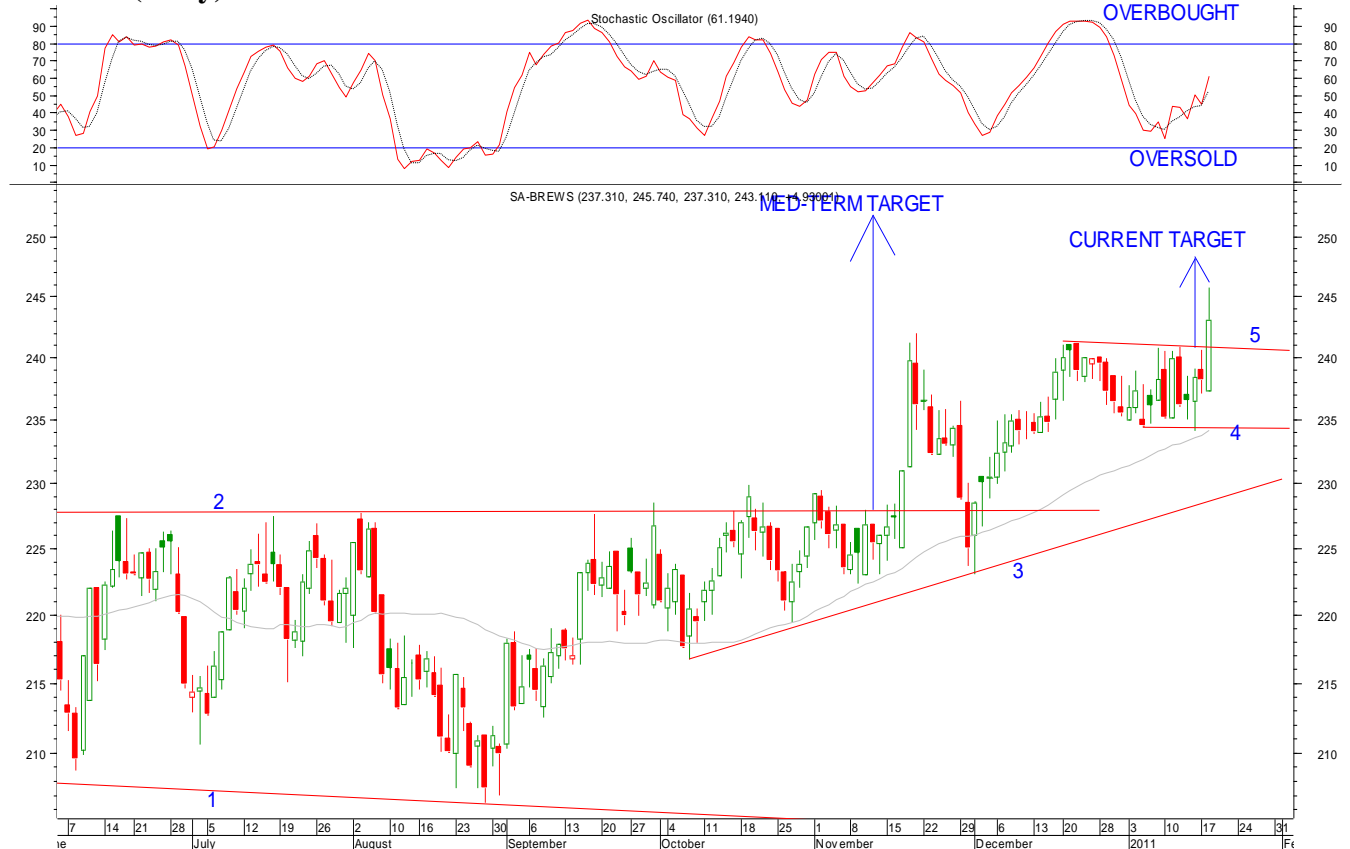


Chart Setup: Yesterday SAB broke out of a small channel (lines 4 and 5). Bigger picture, it broke out of a large broadening formation (lines 1 and 2 in Oct/Nov last year). It has higher targets from both patterns.

- The daily Stochastic (on top) still has good upside potential before becoming overbought, which confirms the bullish chart patterns.

Strategy Details: Traders buy at current levels or better (R242-R241). Investors hold.

Target: The current target (minimum) is R248.15 i.e. the height of pattern 4-5 projected up. The med-term target (minimum) is R251.70. Therefore start locking in partial profits at R249/R250, and more at the med-term target. Then continue with a breaking of its prior one-day low as your trailing stop (see Glossary).

Stop-loss: Keep your initial stop wide as a close below line 4 (R234.50). But once the price closes above R245.75 move your stop up to a close below R241.

- Note, med-term support is line 3 at R229.40.

NEWGOLD (GLD) – Potential breakout coming

Broad Recommendation: PREPARE TO BUY

Trend: Short and med-term sideways. Long-term up.

Strategy: Buy on a close above line 1 (R92.96).

Chart 7. (Daily)

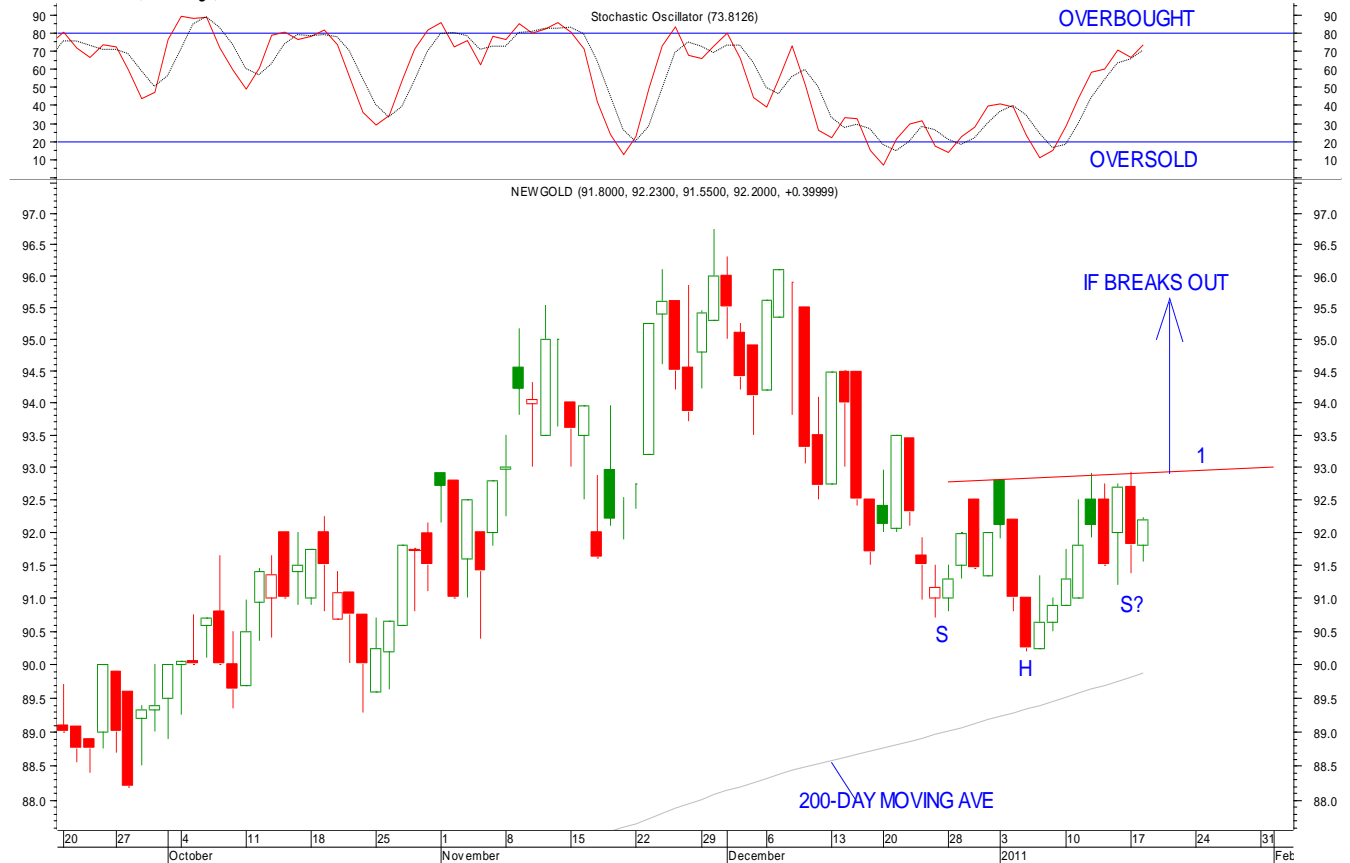


Chart Setup: After pulling back towards its 200-day moving average, Newgold is now forming a "potential" inverse head and shoulders (as labelled). To need to close above line 1 to confirm the pattern.

- The Stochastic (on top) is rising towards its overbought level but not overbought yet. If the price breaks out, the stochastic will remain overbought for an extended period (as in Oct/Nov).

Strategy Details: Buy on a close above line 1 (R92.93). The safer option is to wait for a close above the round number R93.00.

Target: Once the buy signal triggers, it will set up a minimum target of R95.60. Take half profits there and continue with a breaking of its prior one-day low on the remainder. Take more profits at R96.70 if reached.

Stop-loss: Initial stop will be a close below R91.30 (once the buy signal triggers).

Note: Newgold is one way to play the \$/rand (assuming the gold price remains relatively steady).

SMALL-CAP. CHART

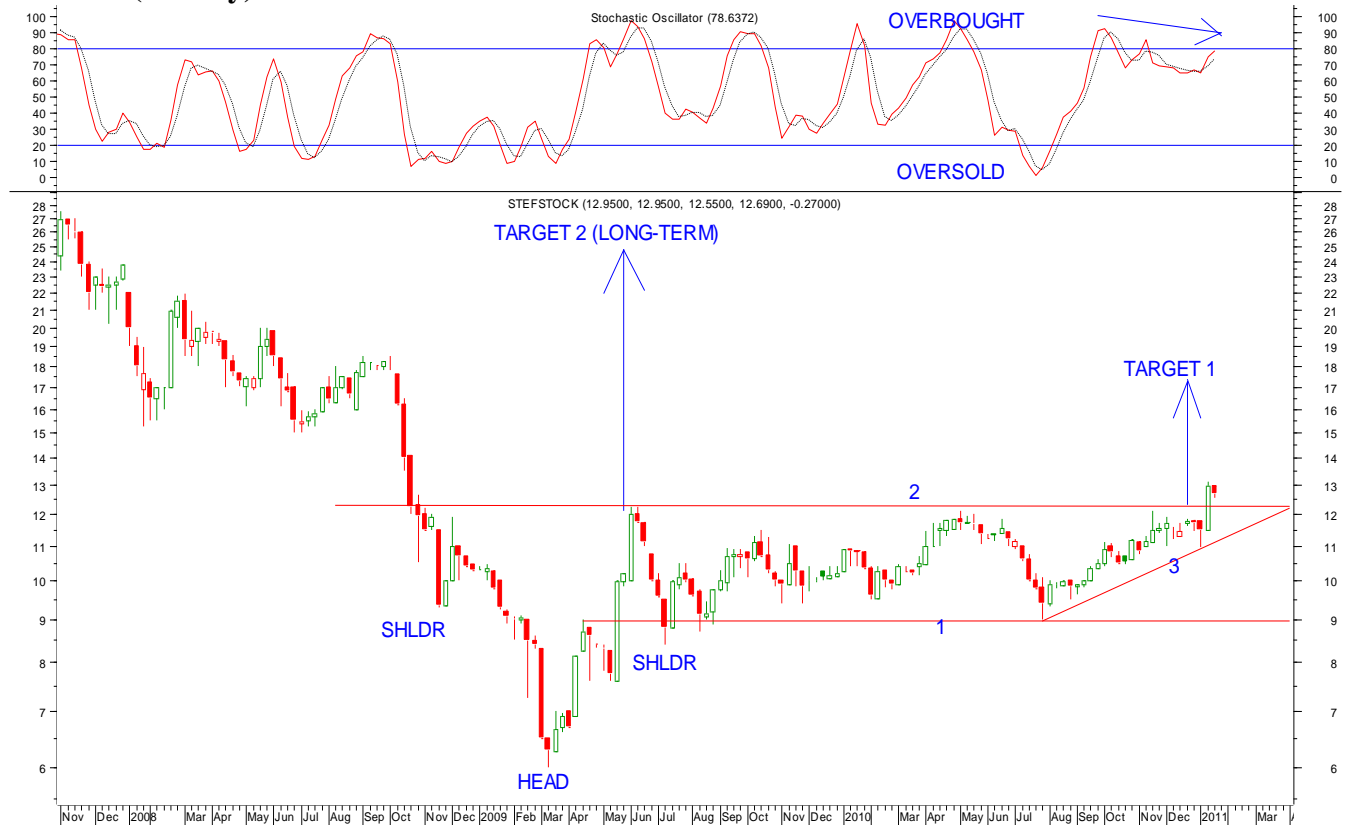
STEFSTOCK (SSK) – An important breakout

Broad Recommendation: BUY

Trend: Short and med-term up. Long-term sideways.

Strategy: Buy at current levels. If it pulls back then buy more.

Chart 8. (Weekly)



Sector: Other Construction

Current Price: R12.50

Chart Setup: One of the better-looking property stocks, Stefstock broke out of a long channel (lines 1 and 2) last week. This is a very bullish event. It also has a large inverse head and shoulders (as labelled) in '08/'09, which has been confirmed in the process of this breakout.

- The weekly Stochastic (on top) is giving a negative divergence, which is the only concern, but I'm giving the recent breakout the benefit of the doubt. Any correction will be a chance to add to your position.

Strategy Details: Buy some now. If it does pull back to line 3 then add to current holdings. (Line 3 is at R11.20 this week, and rising at an age of 8c per week hereafter). If the stop-loss (see below) does get triggered, then look to re-enter off line 1 (R9.00). Long-term players however to place their stop below line 1 (R9.00) and to buy more aggressively at that level, with your stop a weekly close below R9.00.

Target: Target 1 is R17.20 i.e. the height of channel 1-2 projected up. Target 2 (for a long-term recovery) is R24.70.

Stop-loss: Is a close below line 3 for med-term players (see level above). For long-term investors, keep your stop below line 1 (R9.00) as discussed above.

Other small-caps of interest (alphabetically): (shares to consider on a pullback)

- **Long:** Brimstn-N, Chrometco, Platmin, Purple.

3. RELATIVE STRENGTH

- These are the strongest index stocks on a *3-month* basis relative to the JSE All Share Index.
- Typically the leading stocks keep leading. Therefore, traders can buy these stocks on pullbacks, although always look at the chart first before making a decision. Medium and longer-term players should look to buy them when they first appear on this list.
- We've also included the *weakest* index stocks. These can either be shorted on bounces (if in a downtrend), or traded as a "pairs trade" against the strongest stocks i.e. go long a strong stock, and sell short a weak stock at the same time.

Strongest seven Top 40 stocks: ARM, Implats, Exxaro, Kumba-IO, Anglo, Billiton, Richemont.

Weakest seven Top 40 stocks: Shoprit, Reinet, Old Mutual, MondiPlc, Aspen, FirstRand, Anggold.

Strongest five Resi 20 stocks: Wesizwe, Metorex, ARM, Implats, Exxaro.

Resi 20 vs. Findi 30 over 3-months: Resi 20 stronger.

4. NOTES & UPDATES: - Concerning last newsletter's index stock charts:

- **ArcMittal:** this trade has got off to an excellent start. It has got close to the minimum target of 88 soar. Lock in some profits near there and use a breaking of prior two day low as your stop on the remainder. Because it has gone contrary to the overall market in recent months i.e. market going up and it going down, I'm viewing it as a general recovery stock and think it will reach R100 over time (med-term). Pullbacks will therefore remain buyable. It can drop back to the 83.50 level in the immediate short-term. That to be use to add more.
- **Shoprit:** strictly speaking it did close above line 4 in last weeks newsletter to trigger a buy signal for traders, but it is very important to note (as explained in the intraweek alert) that the close above line 4 was in the context of a sideways move here, not a nice, solid move to the upside. These types of breakouts are typically not as reliable. I like to see a real sign of strength on a breakout day. Nevertheless ,if you did buy keep a tight stop as a close below 93.60. And a close above 96.70 will be the new buy signal trigger. But a word of caution is that retail stocks in general are looking vulnerable in the short-term. This stock may well break down, but only temporarily so.
- **Aspen:** continued up from the entry, but is pulling back at the moment. The first target is 92. The vulnerable state of the market might mean it won't get there. I'm a bit concerned about the way its acting. No large positions were advised for this reason. I'd advise exiting part of your trade now for a small profit. Keep your stop on the remainder as an intraday broke below 86. If that stop triggers it will actually be a sell short signal , with caution, for a drop to 77.

Other recommendations and index stocks of interest (alphabetical order):

Important Notice: When buying after a pullback or selling short after a bounce, always look for a sign of a reversal e.g. reversal day or reversal candle before entering (otherwise one is simply picking a top/bottom, which does not work). A reversal day/candle at the top is typically when the price rallies that day but then sells off to close near the bottom of the day's range. Conversely, a reversal day/candle

at the bottom is when the price initially drops that day, but then rallies back to close near the top of the day's range. Waiting for the reversal day will put the odds back in your favour. (I usually like to see the high/low of the reversal day taken out the next day before finally entering).

- Regarding taking profits, I suggest locking in profits in thirds as the price moves in your favour i.e. 1/3 of your position, then another third then the final third.

High probability trades (or charts), other than the three stock charts, I particularly like (long or short) at the moment (in no particular order. See comments below):

- **MrPrice, Angloplat, Sanlam.**

- **Abil:** it's pulled back to support but is vulnerable to a breakdown of the overall market cracks. I wouldn't advise buying now. A close below 39.40 will be an aggressive sell short signal (because it's in an uptrend). Target will be 38.10 and stop an intraday back above 40.25. Med-term players to exit if that breakdown occurs.
- **Absa:** is getting overbought in the med-term after a good run. Look for it to go above 142 in the coming day or two but then expect a pullback. We'll assess protect after that pullback.
- **Anggold:** dropped back to the 302 level expected but it is still vulnerable. A close above 315.50 will be a new buying signal. With your stop a close below 302.50 and a target to 328. However, a close below 302.50 will be a short signal for a minimum drop to 290. Stop a close above 310.
- **Anglo:** it's had a good run, exceeding its minimum target. Profits were advised into further strength last week. Med-term support is 352 (rising by R1.00 per day). A close below there will be a short signal for a drop to 332 initially and potentially to 310. But a reversal day up off/near there will be a buying signal. It can still continue heading up in the interim.
- **Angloplat:** broke out above important resistance on a sharp rally. It's now pointing to a minimum target of 790. It is overbought and is a buy (with caution) only if it drops to 730-725 and gives a reversal day up from there. Initial stop will be a close below 700. Lock in part profits at 770 on the way up.
- **ArcMittal:** see update above.
- **ARM:** it's showing some subtle danger signs to me on the chart and one should prepare for partial short signal, which will be a close below 210 (today). But this shorting level is rising at an angle of R1 per day). That will setup a target to 188. Med-tem players exit all holdings then.
- **Aspen:** see update above.
- **Barworld:** triggered the mentioned buy signal from last week. It's doing well but raise your trailing atop to a breaking of its prior one day low (for traders). Target is 70.
- **BATS:** it reached the shorting target, but then broke down further below support to trigger the re-entry short trade as advised. So far this trade sent working out as it reversed sharply back up the following day i.e. a false breakdown. Place your atop as a close above 262. Reverse a go long then (with caution) for a minimum move to 269. Stop a close below 257.80.
- **BHPBilliton:** it's an interesting chart at the moment. It did trigger the mentioned buy signal on yesterdays close but it's not convincingly yet. It needs to really close above 277.10 to be more convincing. This might happen today. Hold nevertheless, but with a tight stop. If not in, buy on that event (still with caution). Stop is a close below 270. Target then will be 297. Further upside from current levels will lead to the all share index surely retesting its all time high.
- **Bidvest:** triggered the buy signal and the mentioned tight stop triggered the next day for a breakeven/slight loss. No large positions were advised because the market is vulnerable. Important support is 155.50. A close below there will be an exit signal for med-term players and short signal for traders. Target will be 145.

- **Exxaro:** is very high and extended. It's too overbought to buy, so if it pulls back to 147 and gives a clear reversal day up from there then buy again, but a small position. Target will be to 160. Stop will be a close below 143.50.
- **Firststrand:** is vulnerable, an a close for this week below 20 will be a bearish sign. Traders to sell short then, for a drop to 19.15 t least and potentially 18.50 (take half profits at the former level). Stop a close above 21.
- **Gfields:** its testing important short/med-term support and a close below 114.50 will be a short signal, with caution. It's pointing to a target at the moment of 108. Stop will be a close above 118.50. If stopped out, reverse and go long for a rally to 125. More downside is the more likely scenario though. Critical longer-term support is 107.60.
- **Harmony:** it's still pointing to a target to 73 in the short-term. It is oversold as well. Aggressive traders only, sell short at 79. Target to 73. Keep a very tight stop as a close above 79.20. That will be a good risk-reward trade (see Glossary).
- **Imperial:** it has a minimum downside target of 113.80 and has continued down from last week as expected. Traders sell short on a bounce to 120 and reversal down from there. If no reversal done occurs i.e. reversal day/candle, then don't sell short. Stop will be a close above 124. It is oversold in the short-term so no large positions advised.
- **Implats:** a classic example here of how the stock closed above our mentioned buying level (last Thurs) but it was far off the high of the day. Last week we expressly said one should buy on that type of breakout day, because it's actually a reversal candle down. So no trade here right now. Very important support is 227. There's a real chance that level will break. If it gives a clear reversal day up off that le then buy, but with caution and a tight stop below the reversal days low. Target will be to 237. But a close below 226.50 (if it happens) will be a short signal, for a drop to 208.80 at least.
- **InvPlc:** on Monday it tested the upper end of a sideways range. There's no clear signal at the moment. But a close below 56.10 will be a short signal for a drop to 53.50. Stop then a close above 57.35.
- **Kumba-IO:** remarkably it continued straight up to above 470 (the target given here in Oct). I did doubt that target at one stage, and the next here was a bit too early. It is over-extended now, but if it holds will continue up to 477.50. I'd want to see it pullback before buying e.g. a pullback to 443 and a reversal day up form there or lower to buy on. Stop will be a close below 436,50 which is an important support level.
- **Lonmin:** it triggered the mentioned buy signal yesterday but I'm not convinced about it going. Stop is an intraday break below 202, but caution is advised here, and even reducing some of your exposure now if you bought, is a good idea. If it can hold above 208-210 for a couple of days that will be a bullish sign – for a move to 230 but right now I need to see more evidence of a confirmed breakout.
- **MrPrice:** broke below the mentioned support level to confirm the potential head and shoulders pattern mentioned last week. It is now pointing to a minimum downside target of 56.75 in the short-term. Sell it short for that drop, but no large position advised given that it's been one of the strongest socks on the market. Stop is a close above 64.85. Lock in some shorting profits at 57.20. No need for investors to be selling right now though.
- **MTN-Group:** got within cents of the 135 target for aggressive traders .,it reversed down then which was the signal to take profit if you took that trade. Current support is 129.10. Aggressive traders to sell short on a close below there for a drop to 122.35. Stop a close above 133.40. Critical med-term support here is 120.75. It is vulnerable to a correction. Med-term players should lighten holdings on a close below 129.10.
- **Naspers-N:** has had a good run, showing some good profits on this new trade. The target is still 412 but it is overbought. Start taking profits above 400. More at 407 and the rest at 412 if reached. Place your trailing stop right now as a close below 395.

- **Nedbank:** traders buy if it reverses up from 131.50. Stop the a close below 130.70. Target 136-138. No large positions advised. A close below 130.50 though will be a short signal for a drop to 126.50. Critical larger support here is at 125.50.
- **Newgold:** See Chart 7.
- **Old Mutual:** has continued moving up and didn't give a pullback for new buyers to enter. Target for those who've been buying on weakness as advised (med-term) is 15. If it does pullback to 13.80 then traders buy on a reversal day up from there, for a move to 15. Stop below the reversal days low.
- **Remgro:** it's getting oversold in the short-term after drifting down. Support is 110. This is one stock investors should always be holding without selling out of, ever. Traders only, to buy on a close above 112.80 for a move to 116.50. Stop will be a close below 110.50.
- **Richemont:** attempted a new breakout on Monday that didn't hold. It has important support at 37.65. Traders hold for now with your stop a close below there. To the upside a close above 40.65 will be a new buying signal for a rally to 43.50. However a breakdown below the stop level (37.65) will be short-term bearish. But no shorting advised on that just yet.
- **RMBH:** no new trade here right now. Med-term players to be reducing holdings further, above 40.
- **SABMiller:** see Chart 6.
- **Sanlam:** is still moving sideways in the short-term. Hold/buy near 27.50 if not in. A close above 28.20 will setup a move to 28.90 for profit taking. It will also be another buy signal for traders. Current stop for traders is a close below 27.20.
- **Sasol:** med-term target is 380 and looks like it will get there comfortably. Isn't giving much pullback opportunities to buy. If you can get in near 350 then buy. Stop will be a close below 343. Target to 380. To the upside, a breakdown below 342 will be bearish for further downside.
- **Shoprite:** see update above.
- **Stanbank:** hold. Stop for traders is a close below 106. Target to 111-112.
- **Steinhof:** is very over-stretched. It has been moving sideways in the short-term, but critical support is 23.40. No clear trade here right now but if it close above 25.35 then buy, with caution for a rally to 27.10. A close below 23.40 on the downside will be a short signal for a drop to 20.70.
- **Tigbrands:** aggressive traders only, buy at current levels for a rally to 199.50. Keep a tight stop as a close below 191.40.
- **Truwths:** see Chart 5.
- **Vodacom:** stop triggered for a very small loss. This stock is showing numerous danger signs. One of them is a potential head and shoulders forming. A close below 72.60 will confirm it and be a short signal for a drop to 66.70 at least. Stop then will be a close above 75.50. Med-term players to exit completely if that signal triggers.

GOLD UPDATE: The JSE gold index is still vulnerable to more short-term downside. It is pointing to a target of 2450 and potentially even 2410. Only buy gold shares if they're confirmed by a close above 2595 on the gold index. In the meantime aggressive traders can short gold stocks, with caution, as discussed under the individual stocks above.

Dollar gold price: the gold price broke the support level shown last week on its chart. This triggered a short signal. The breakdown isn't convincing as yet. I would give it space if you sold short and keep your stop as a close above 1398 (spot price). In the meantime, a close below 1360 will be another short signal for a drop to 1290 at least. Precious metals in general are vulnerable to decent sized corrections.

Rand gold price: it looks to be building up for a rally. A close above 9442 will be more convincing as a buy signal. Buy look for it to be confirmed with a breakout in Newgold (chart 7) to add a higher probability of a genuine breakout. Minimum upside target then will be 9730 here. And potentially 9800.

5. “SHORTABLE” STOCKS AND INDICES

Please note:

- We list the stocks and indices (local and overseas) that are in *short-term* (at least) downtrends, and that can be sold short (see Glossary for definition) on rallies to resistance.
- Selling short can be done via single stock futures, CFDs, spread trading, and/or put warrants.
- One way of trading these stocks/indices is to sell short rallies to the falling 20-day moving average (in stronger downtrends) or the falling 40-day moving average (in more gradual downtrends). These moving averages tend to act as resistance. *Wait for a downward reversal at the moving averages before selling short.*
- NOTE 1: ALWAYS USE PROTECTIVE STOPS ON ALL POSITIONS. Selling short is for short-term traders only, and all positions must be monitored closely.
- NOTE 2: The instruments on this list are not automatic shorts, but it is a starting point for looking. Always look at the chart first before making a final decision.

Shortable Stocks: (as of 19 Jan. '11) Price (R) 20-Day MA: 40-Day MA:

ANGGOLD	310.0000	317.8130	326.8335
CITYLDG	78.5000	80.7805	82.1608
CLICKS	41.9900	43.4230	43.6360
DRDGOLD	3.3000	3.3170	3.3890
GFIELDS	115.6500	118.0360	119.4703
GROUP-5	35.1500	36.9670	37.0313
HARMONY	77.5500	80.6645	82.0070
IMPERIAL	116.1500	123.8810	125.2840
MR-PRICE	62.0000	64.8900	65.3260
PICKNPAY	46.8000	47.9225	48.1415
REINET	11.3000	11.5510	11.5605
SIMMERS	0.9400	0.9590	0.9745
SPAR	95.2000	96.5335	97.5587
SUNINT	102.7500	104.1250	105.2542
TRNSHEX	2.3000	2.3650	2.3742
TRUWTHS	68.0000	70.9670	72.2913
WOOLIES	25.2900	26.5210	26.6600

Indices/Currencies/Commodities: Price 20-Day MA: 40-Day MA:

M-GOLD-\$	1369.5000	1383.3700	1383.4537
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SUMMARY

Whether the JSE All Share index continues up to a new all time high or not, the fact remains, we are dangerously high. These are typically levels where the “small guy” rushes in, as the smart money offloads their stock to him.

We are, for the first time (in a long while), seeing a crack in retail stocks and one wonders if this isn't finally discounting the end of the cycle of interest rate cuts. Those stocks still look vulnerable for more downside.

The main running (to the upside) is still in resources stocks, which is what's keeping the All Share so high. When the break in resources stocks comes, the sell-off will be fierce. But for now there's little else to say than to continue giving the up-trend the benefit of the doubt, until the important support levels get broken. In the meantime, continue to protect profits with your trailing stops.

Sincerely,

Colin Abrams
TheMarket.co.za

PS: Remember: Protective stops on all positions!

NEXT COURSE DATES:

JOHANNESBURG

Course 1: Technical Analysis - 27th February '11 (Sunday).

Course 2: Advanced Technical Analysis and Money Management - 13th March '11 (Sunday).

Course 3: Developing Trader Discipline (Trading Psychology) - 11th March '11 (Friday).

CAPE TOWN

Course 1: Technical Analysis - 12th June 2011 (Sunday).

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Tel: 011 440-7880

Fax: 086 510 9988

info@themarket.co.za