

Welcome to TheMarket.co.za Weekly Analysis Report

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Classic Trading Rule:**"Never cancel a stop-loss order after you have placed it!"****TEMPORARY RALLY GAINS MOMENTUM****Introduction:**

After a muted retest of last week's low yesterday, the JSE All Share index and leading stocks like AGL, and BIL are rallying back strongly. (Subscribers receiving the intraweek updates were prepared for this). This relief rally is being helped by short covering, which is moving the prices faster. This rally is temporary, I believe, and is setting up a high probability round of short trades. That being said, some large-cap industrial stocks are still holding up very well, but that too I believe will be temporary. We start with the **Dow** update, showing a downside target for it still intact. The **JSE All Share** index chart shows where to expect resistance for the current relief rally. We also show a chart of the **JSE findi 30 index versus the resi 20 index**. It shows financial and industrial (findi) stocks much stronger on a relative basis. We discuss the implications of this. We also show a chart of the **USD/Rand**, which is weakening but not for too long I believe (short-term). The stock charts shown are **PPC** (clear targets), **Kumba-IO** (a relief rally to short on), and **Sappi** (a strong stock with a higher target).

The small-cap chart is **Eqstra**, an industrial stock that is in the early stages of a recovery.

Overall, we're currently seeing the first 'decent' relief rally since the markets turned down about a month ago. I do think this is a chance to line up new short trades, and not a new buying opportunity. The focus therefore remains one of shorting the rallies, for traders. Investors that have reduced their portfolios are to wait patiently for their buying opportunity, which is not here yet.

Executive Summary:

- **Dow (chart 1):** Hold current shorts with a tight stop. Sell short again if it bounces to 10 330.
- **All Share Inx (chart 2):** Sell short on a reversal day down from 27 950.
- **Findi vs. Resi (chart 3):** Go long SatrixInd/sell short SatrixRes, on pullbacks.
- **USD/ZAR (chart 4):** Look to go long the rand (buy) from the 7.49-7.5150 zone.
- **PPC (chart 5):** Sell short on more of a bounce towards line 4.
- **Kumba-IO (chart 6):** Sell it short on a reversal day down from R355.50 or higher.
- **Sappi (chart 7):** Buy at current levels for more of a short-term rally.
- **Eqstra (chart 8):** Buy on the first pullback towards line 4.
- **Leading Stocks (3-mths): Top 40** – MondiPlc, Old Mutual, MTN, Shoprite, Growpnt, Richemont.
- **Resources 20** - Metorex, Kumba, ArcMittal, Exxaro, Billiton, Sasol
- **Shortable stocks/indices:** 29 stocks, 3 indexes, 1 commodity, 4 currencies.

1. MARKET CHARTS

DOW JONES – Temporary bounce, lower target

Broad Recommendation: SELL SHORT THE BOUNCES

Trend: Short-term down, but oversold. Med-term down. Long-term sideways to up.

Strategy: Hold current shorts with a tight stop. Sell short again if it bounces to 10 330.

Chart 1. (Daily)

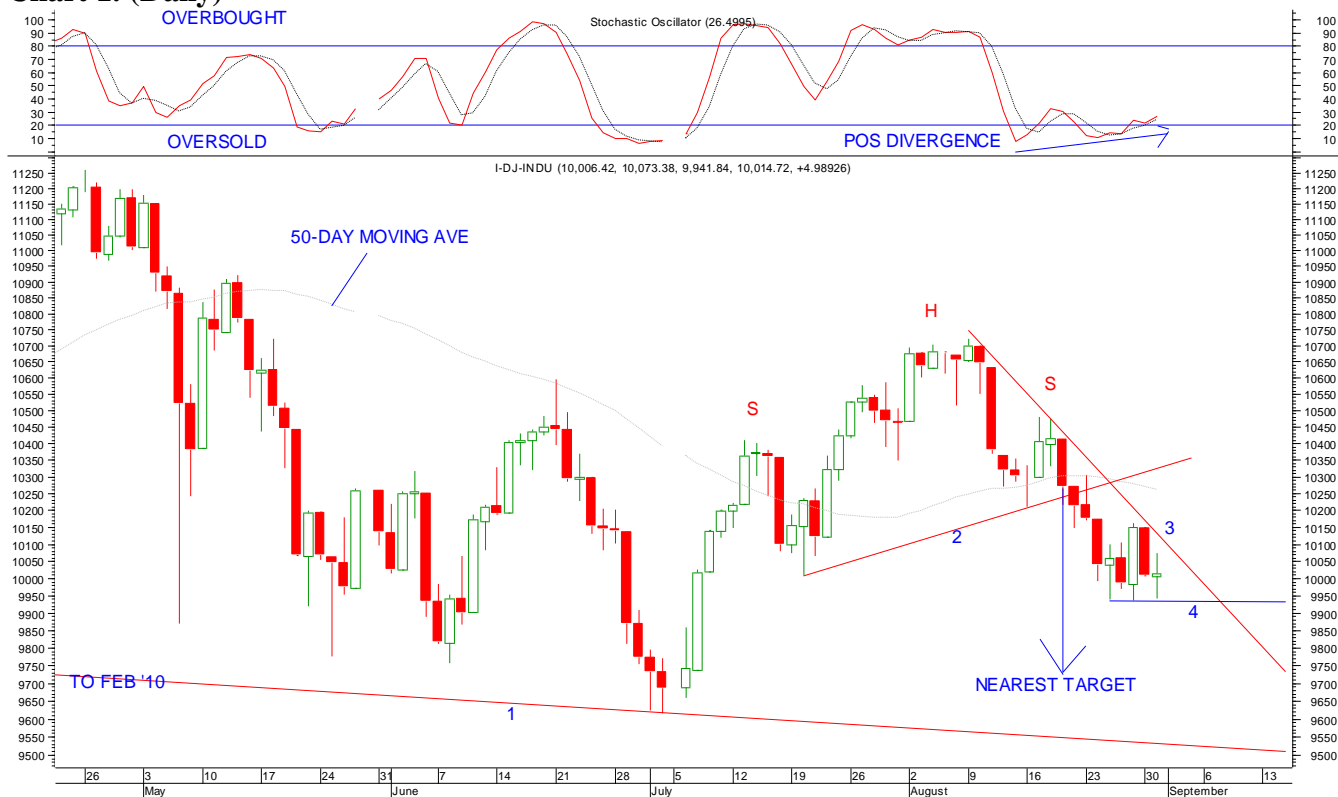


Chart Setup: The Dow has moved sideways in recent days with line 4 (9 935) being current short-term support. The head and shoulders pattern shown last week (labelled S-H-S in red) is still in force, with a lower target.

- The short-term Stochastic Oscillator (on top) is giving a positive divergence (see Glossary) from its oversold level, which typically warns of a rally to come. Any rally will be temporary though.

Strategy Details: Hold current shorts with your stop an intraday break above 10 165. If that level does get triggered, then look sell short again after a bounce to 10 330-10 420.

- Investors to have reduced holdings.

Target: Minimum downside target is 9710 i.e. the height of the head and shoulders projected down. Start locking in short-term profits there. Further targets are 9615 and then line 1 at 9520 for locking in profits at each level. A breakdown and close below line 1 will setup a larger drop to the 8300 level, medium-term.

Stop-loss: Current stop is an intraday break above 10 160, as mentioned. If shorting after a rally to 10 330-10 400, place your stop as a close above 10 560.

JSE ALL SHARE INDEX – Relief rally

Broad Recommendation: TRADERS SELL SHORT AFTER A BOUNCE

Trend: Short-term down but oversold. Med-term down. Long-term up.

Strategy: Sell short on a reversal day down from line 2 or higher (e.g. 27 950).

Chart 2. (Daily)

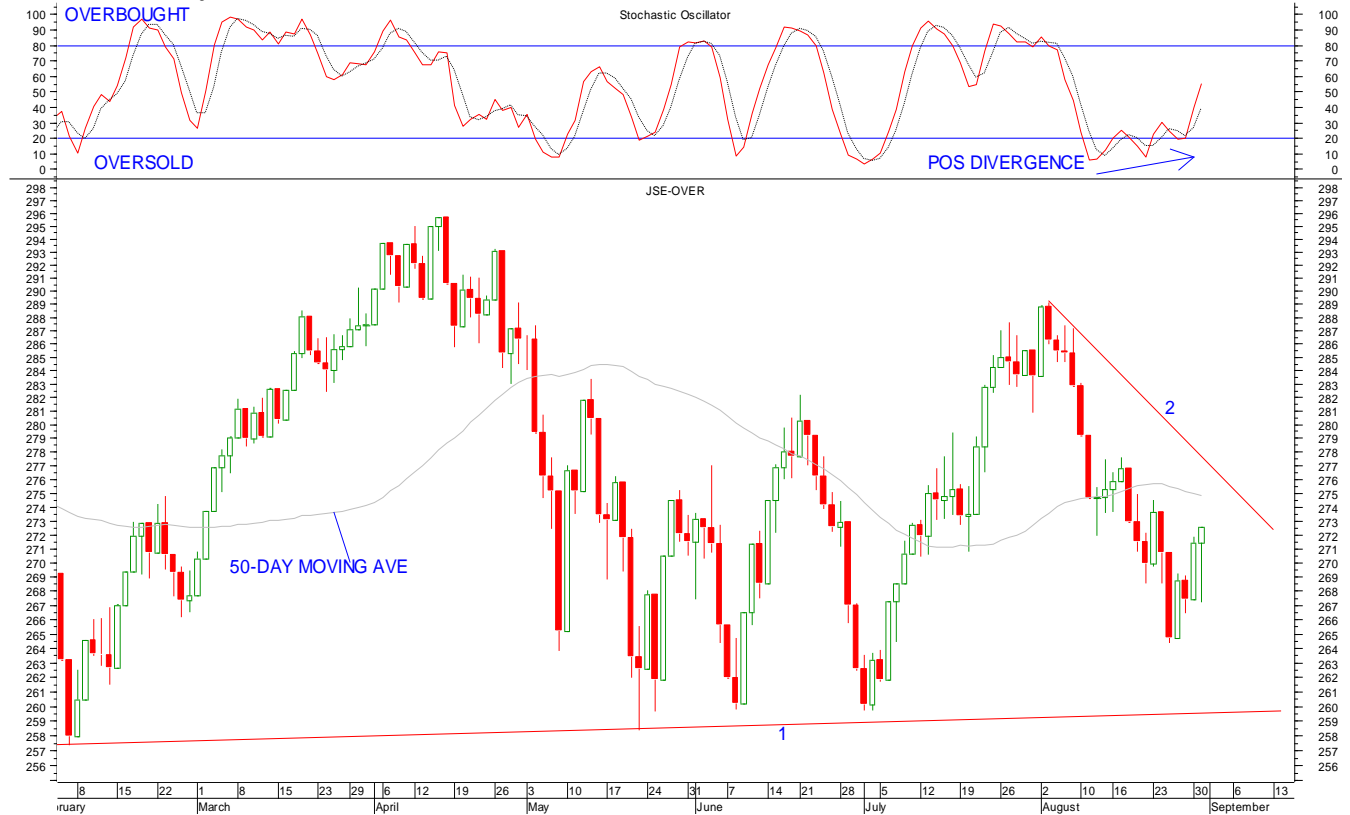


Chart Setup: After a sharp drop in recent weeks, the All Share index is finally giving a decent relief rally. This can last another week before it heads down again.

- The short-term Stochastic Oscillator (on top) is still giving a positive divergence (see Glossary) from its oversold region – thereby pointing to a rally to come.

Strategy Details: Traders sell short either via the alsi future/or index stocks that are closely correlated to this index, after a bounce to line 2. (Line 2 is at 27 700 on Weds 1st and declining at an angle of 50 pts per day thereafter). My gut feel is it will go higher i.e. to 27 950 (it's not far from line 2 already, today). But either way, a reversal day/candle (see Glossary) down from up there will be a chance to sell short.

- Focus mostly on resources stocks for shorting.

Target: After a bounce, most likely to the 27 950 level, look for a drop to line 1 (25 980). A breakdown and close below line 1 will setup a larger drop (med-term+) to 22 700.

Stop-loss: Give it room initially so keep the stop wide as a close above 28 350. Once the price heads back down towards last week's low, then lower your stop to a close above line 2 (see level above).

FINDI 30 VS RESI 20 – Resources continue to underperform

Broad Recommendation: FAVOUR FINDI STOCKS OVER RESI

Trend: Short and med-term findi stronger. Long-term sideways.

Strategy: Go long SatrixInd/sell short SatrixRes, on pullbacks.

Chart 3. (Daily)

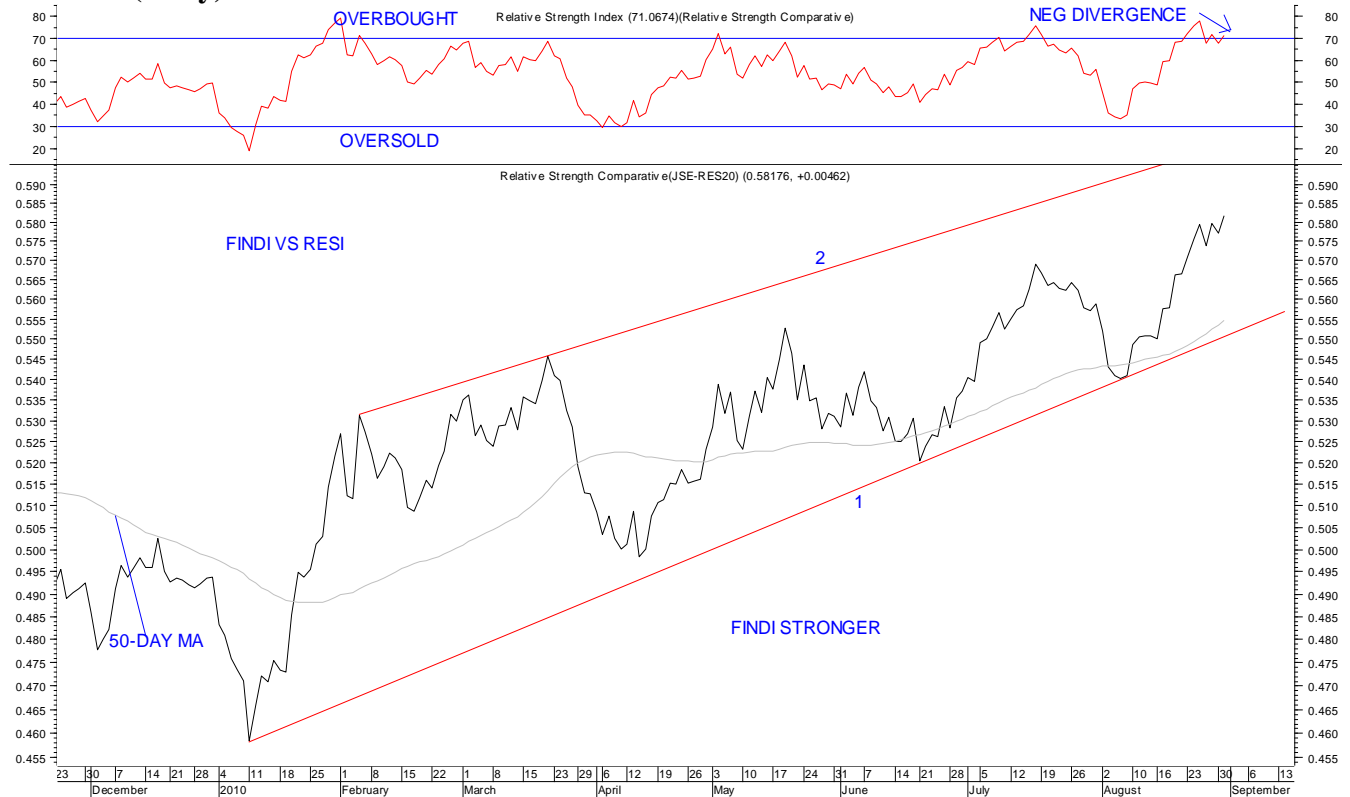


Chart Setup: The above chart is a ‘relative’ of the findi 30 index versus the resi 20 index i.e. a ratio. The ratio line is rising, pointing the findi outperforming resi on a relative basis. [Generally speaking (but not always), when this ratio rises, the overall market (JSE All Share) moves down, because of its large resources makeup].

- Right now the RSI of the ratio (on top) is overbought and giving a negative divergence (see Glossary). This is warning of a pullback in the ratio (and a relief rally in the market).

Strategy Details: There are a number of ways to play this chart. One option is a ‘pairs’ trade, to go long (buy) the strong findi stocks and to sell short the weak resi stocks – at the same time. Another option is to buy the SatrixInd on a pullback and sell short the SatrixRes at the same time. (That will give you the same approximate chart as above, in fact even more pronounced).

- Another option is to simply favour findi stocks in your investing portfolio over resi stocks (until such time as this ratio breaks down below line 1, at 0.55).

Target: Look for a pullback in the ratio towards line 1 soon. Note, line 2 resistance is at 0.60 for the ratio. (The ratio is calculated as findi 30 index divided by resi 20 index). A breakdown and close below line 1 (if that happens) will see it drop to 0.50, and favour resources again.

Stop-loss: Keep your stop as a closing price of this ratio, below line 1 i.e. below 0.55.

USD/RAND – Temporary weakening in rand

Broad Recommendation: GO LONG RAND HIGHER UP

Trend: Short-term sideways. Med-term rand strength. Long-term sideways.

Strategy: Look to go long the rand (buy) from the 7.49-7.5150 zone.

Chart 4. (Daily)

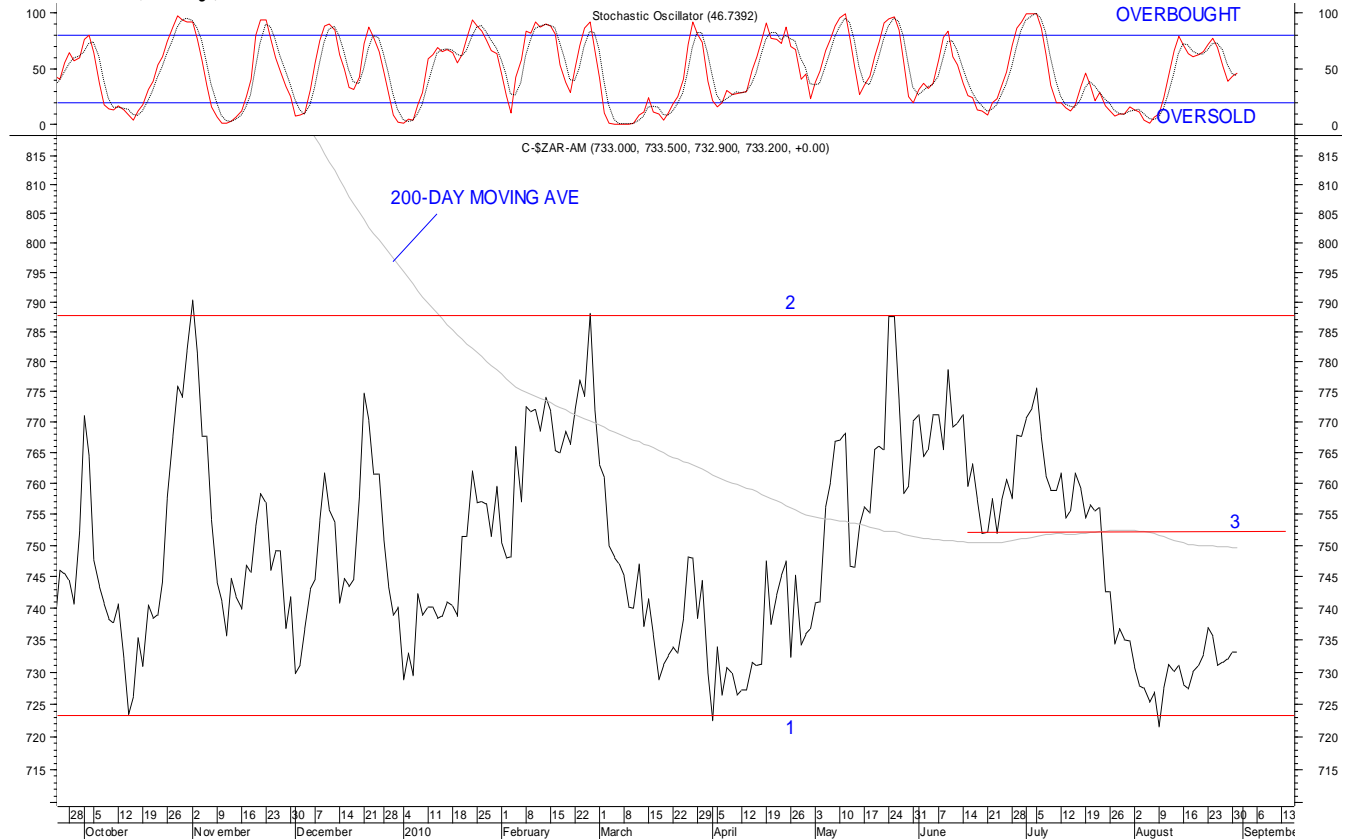


Chart Stop: The USD/ZAR is still in a large sideways channel (lines 1 and 2). After recently bouncing off (from just below) line 1 (as expected, from the last time we showed the rand), the currency is now weakening in the short-term back towards its 200-day MA and line 3 resistance (7.5150).

- The short-term Stochastic (on top) is neutral, but can have another move towards its overbought dollar area.

Strategy Details: Traders buy the rand in the 7.49-7.5150 zone, for a move back to line 1.

- Thereafter sell short the rand from line 1 again.

Target: After the bounce towards 7.5150, expect a move back to line 1 at 7.21. From there, expect a larger weakening of the rand, most likely back to line 2 at 7.87.

Stop-loss: For going long the rand on the current move towards line 3, place your stop as a close 7.57.

PPC (PPC) – Three lower targets

Broad Recommendation: SELL SHORT ON A RALLY

Trend: Short and med-term down. Long-term sideways to down.

Strategy: Sell short on more of a bounce towards line 4.

Chart 5. (Daily)



Chart Setup: PPC has broken down from a number of well-formed chart patterns. The largest one is lines 1 and 3, which form a large descending triangle/wedge. Then, lines 2 and 3 form a symmetrical triangle (broken in May). More recently, line 4 and the latter part of line 1 form a descending triangle, which was broken recently. All three patterns are pointing to lower targets.

- The short-term Stochastic (on top) is giving a positive divergence from its oversold level, which is alerting to the current relief rally. Expect it to continue up a bit more before heading down again.

Strategy Details: Sell short on more of a bounce towards R30.70 - line 1 (R31).

Target: Targets 1 and 2 (T1 and T2) point to the same level at R27.65; while T3 is R25.95. Profits can be locked in at T1 and 2, and bounces will remain shortable thereafter to T3 over the medium-term.

Stop-loss: Initial stop for shorting is a close above R31.20.

KUMBA-IO (KIO) – Ominous pattern forming

Broad Recommendation: SELL SHORT HIGHER UP. INVESTORS REDUCE

Trend: Short-term down despite current bounce. Med-term sideways. Long-term up.

Strategy: Sell it short on a reversal day down from R355.50 or higher.

Chart 6. (Daily)



Chart Setup: Kumba has broken below a 12-month up-channel, lines 1 and 2. It is currently giving a relief rally but it's unlikely to last too long. It is also forming a "potential" double top (as labelled). It needs to close below line 3 (R290) to confirm that pattern. Keep in mind, given that this stock has risen almost 300% from its bear market low, it is at a very high level (i.e. with room for correcting).

- The short-term Stochastic (on top) is not yet overbought, so the price can still rise more before heading down again. (Note the small positive divergence, which warned of this relief rally).

Strategy Details: Trades sell it short from R355.50 on a reversal day/candle down (see Glossary). If it doesn't occur from there, then it's likely to occur from R368.

- Investors to be reducing holdings in this stock.

Target: After the current relief rally (see levels above), expect another leg down to line 3 (R290). A breakdown and close below line 3 will confirm the potential double top, and point to a target of R222 for further shorting.

Stop-loss: Above the high of the reversal day down for the short position, or a close above R370 (whichever is higher). Narrow your stop as the price nears line 3 e.g. to a breaking of its prior 2-day high. Some profits can be taken at line 3, but re-enter short on a close below there (R290).

SAPPI (SAP) – A final run

Broad Recommendation: TRADERS BUY

Trend: Short-term technically sideways. Med-term up. Long-term sideways to up.

Strategy: Buy at current levels for more of a short-term rally.

Chart 7. (Daily)

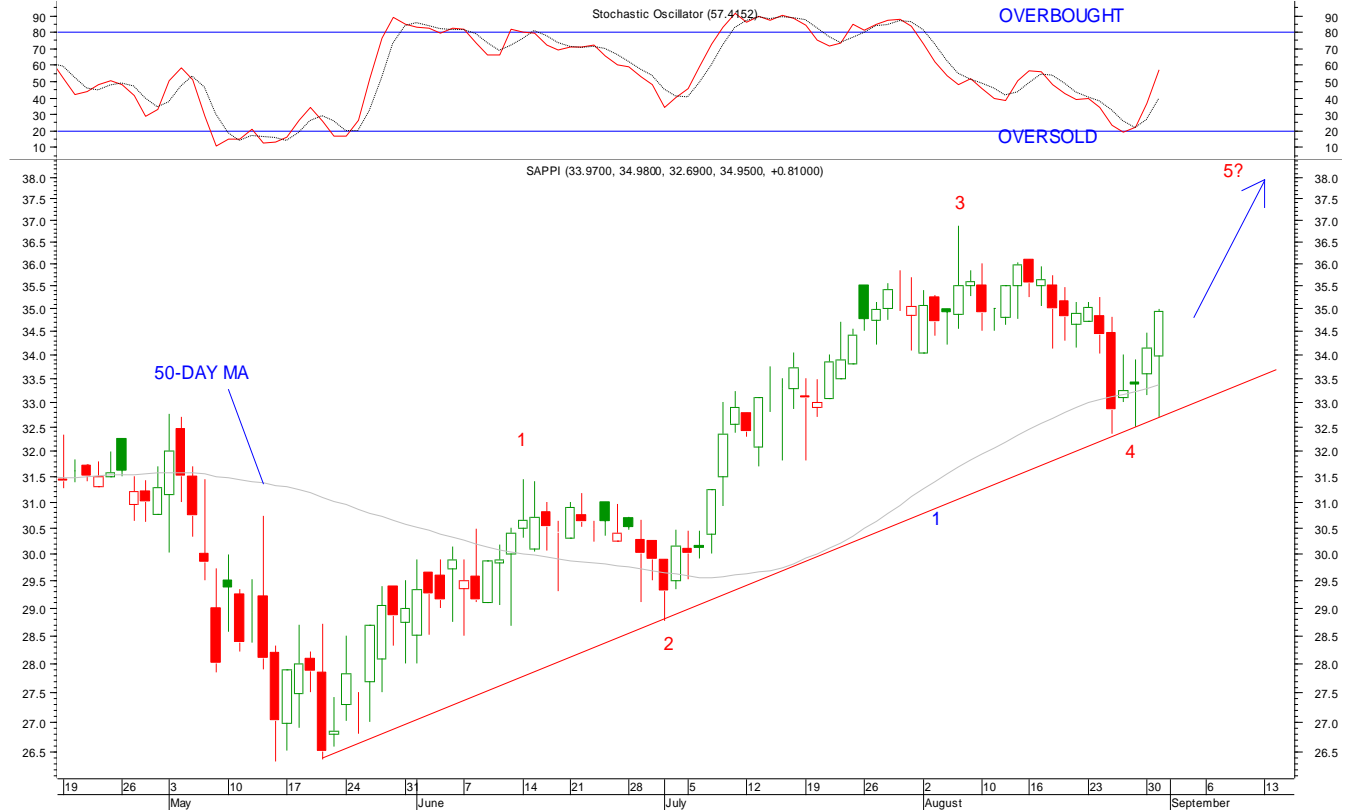


Chart Setup: Sappi has been one of the very strongest index stocks on the JSE in recent months. After a pullback in the first half of August, it has bounced off line 1 support and also found support at its 50-day moving average.

- The Elliot Wave count (see Glossary) in red numbers, points to a final fifth wave (5) currently underway.
- The Stochastic (on top) is moving up from its oversold region and still has more upside before becoming overbought, thereby confirm our bullish view here in the immediate short-term.

Strategy Details: Traders buy at the current level for more short-term follow through.

Target: Take partial profits at/near R36.90, and continue with a trailing stop from there, of a breaking of its prior 2-day low. Take all trading profits at R37.90 if reached.

Stop-loss: Initial stop is a close below line 1. (Line 1 is at R32.80 today Weds, and rising at an angle of 10c per day hereafter).

SMALL-CAP. CHART

EQSTRA (EQS) – Recovery proicess underway

Broad Recommendation: BUY

Trend: Short and med-term up (getting overbought). Long-term technically down.

Strategy: Buy on the first pullback towards line 4.

Chart 8. (Weekly)



Sector: Diversified Industrials

Current Price: R6.00

Chart Setup: Eqstra had a multi-month drop to retest its 2009 low, at line 1. It has rallied from there and broke above line 2 resistance recently. In addition it is now breaking out above line 4 (of a channel with line 3). All in all, the technical picture here is looking a lot better.

- The weekly Stochastic (on top) is getting overbought, which is the only concern right now, but any pullback will be buyable.

Strategy Details: Buy on the first pullback towards line 4 (R5.50). If it happens to pull back further e.g. towards line 3 at R5.10, then buy more.

Target: To the Sep '09 high of R8.45 over the med-term+.

Stop-loss: Keep your initial stop wide, as a weekly close below line 1 (R4.50). If it does happen to drop close to there (very unlikely) then buy more near there, and use the same stop.

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

- **Long:** Pan-Af.

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: MondiPlc, Old Mutual, MTN, Shoprit, Growpnt, Richemont, Aspen.

Weakest seven Top 40 stocks: Angloplat, ARM, Telkom, Anglo, Lonmin, Implats, Barworld.

Strongest five Resi 20 stocks: Metorex, Kumba, ArcMittal, Exxaro, Billiton, Sasol.

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

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

- **Anglo:** broke below critical support shown last week. It is now giving the relief rally and an opportunity to line up some really high probability short trades. Sell it short on the current bounce to 279. It could even go higher eg to 286. But wait for a reversal day/candle first to short on. Targets are 224, then 206 med-term.
- **BHPBilliton:** broke medium-term support and is no giving the relief rally. This is just what we want. Sell it shorting a reversal day down from 216. It can go to 219. (The way I see it, the higher it bounces the better). Target down to 177.
- **Lonmin:** is holding med-term support shown last week and giving the relief rally. There is resistance nearby at 176.70, but I'd like to see it bounce more e.g. to 180.30. If it doesn't reverse down from there then look for it from 183.50. A reversal day down from either (or both) levels will be the shorting signal. A close below 165.90 will setup the downside targets shown last week. Keep stops very loose for now, to give it space e.g. a close above 190.

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):

- **Firststrand, ARM, Exxaro.**

- **Abil:** got to our downside target for a nice short trade. It is now giving the bounce and is a chance to line up another short. Short it on a reversal day down from 32.90. If it doesn't happen from there then look for it at 33.50. Stop will be a close above 34. Target to 28.30.
- **Absa:** stopped just above the 119.20 target and is giving the relief rally. It was certainly close enough (got to 120 to be taking at least half profits. Short it again on a reversal day down from 128.20 or from 130.70 – however it occurs first. Target back to 120-119 for at least half profit taking. A close below 118.50 will setup a larger drop to 100 med-term.
- **Anggold:** reversed up last Wednesday from above 300. It has rallied back strongly especially today. A close above 320 will be significant. It will setup a target to 340. One can buy on that but not with a large position. I would maintain a bit of healthy skepticism about it reaching that level right now. Stop will be a close below 310.
- **Anglo:** see update above.
- **Angloplat:** after a steep rally for some really good shorting profits, it is rallying back today. Look for a reversal down from 652, perhaps 668 to sell short on again, or to add to current shorts. Target down to 565. Keep your stop wide as a close above 715.
- **ArcMittal:** broke to the downside from its recent sideways pattern. Last week we advised to reduce some holdings here in case it broke down. The stop was triggered to exit this trade. If it breaks above 88.70 then buy again but that's looking very unlikely. My bias here will be to short the rallies but right now I don't see a clear trade here.
- **ARM:** a nice looking med-term pattern (bearish) to short it on. It's pointing to a minimum target of 117. Look to short it on the current relief rally on a reversal day down from 161, but ideally if it gets higher than that e.g. to 164.70. Stop a close above 168.
- **Aspen:** retested solid resistance yesterday at 84.70 it's struggling to breakout and close above that level. If it does it will setup a target to 97 but treat that target with scepticism given the vulnerable state of the overall market. One can buy if such a breakout happens but keep a small position size. Stop will be a close below 80.50. If you sold short on yesterday's retest of resistance keep a tight stop as a close above 84.70. To the downside lock in some profits at 79. A close below there will setup a further drop to 74.90.
- **Barworld:** bounces remain shortable and hold current short if in. A bounce to 43.80 to be shorted again on a reversal day down. It might go higher e.g. to 45 – either way rallies to be shorted. Target to 40.20. A breakdown and close below 40 will setup a drop to 35 at least for further shorting.
- **BATS:** is proving tricky in the short-term. A close above 254.10 will be a very cautious buy signal, for a potential move to 266.50. No large positions, and keep your stop as a close below 251. To the downside a close below 251 to be shorted for a drop to 241. Stop a close above 254.10.
- **BHPBilliton:** see update above.
- **Bidvest:** rallied very sharply yesterday with no reversal day down for shorting on (fortunately). It can still go to 140.80 but I don't think too much more than that. A reversal day down from there can be shorted but with caution because it is strong. The large-cap industrial stocks in general have held up well. Shorting is preferred in general on the weaker stocks e.g. resi stocks or bank stocks.
- **Discovery:** got within a few cents of our 33.90 target. It is oversold, and a bounce e.g. to 36 will be shortable. Target to 33.10. Stop a close above 37.10. Med-term a close below 33 will setup a drop to 29.
- **Exxaro:** is giving the relief rally right now. Look to short it on a reversal day down from 116.70. If it doesn't happen there then from 119. Target to 109 initially for traders. Lock in partial profits there on shorts. A close below 108.40 to be shorted again for a larger drop to 94.
- **Firststrand:** broke out above short-term resistance yesterday. This is a stock that I think is building up for a nice short trade. Hold if short/ sell short on a reversal day down from 20. Target to 18.30 initially. Stop a close above 20.50. If it closes below 18.20 re-enter short for a larger drop to 15.75.

- **Foschini:** has given a sharp rally in recent days. If you shorted on Mondays reversal day down then hold with your stop a close above 73.50. A reversal down from 72.20 will be another shorting signal. Target to 65.50. A close below 65.20 will setup a downside target to 58.
- **Gfields:** was just stopped out last Wednesday. If you got the newsletter late it will have been to your advantage as it rallied back). It's starting to look toppish again. There is resistance at 108.10 which it might get to but not more than that. Look to be taking profits on longs into the current rally. A reversal down for m108 will be a short signal. Target back to 100.
- **Grindrod:** It is still in a small triangle and can break out in either direction. A close below 15.10 will be a short signal for a drop to 14.45, but a close above 15.65 to be bought for a move to 16.20. Stop a close above 15.65 for shorts/below 15.10 for a long signal.
- **Harmony:** is getting close to our 78 profit taking level. It can go to 81 if there is string follow through, use a breaking of its prior one day low as your stop and take most profits at 78; continue with the same stop thereafter on the balance.
- **Imperial:** has continued its good run but is overbought and getting overstretched to the upside. At a push it can retest old highs at 107.30 but not much more than that. No trade right now unless it gives a very clear reversal down for 107 one can short some but not aggressively at all, for a drop top 96.50.
- **Implats:** is giving a relief rally at the moment after a very steep fall. Short it on a bounce to 184 (or higher). Med-term target down to 144.
- **InvPlc:** has moved sideways over the past two weeks in a triangle. Hold if short with your stop a close above 54.20. Support is 52. A close below 51.90 will setup a drop to 49.90. Take trading profits there. If it closes below 49.90 for 2 days, it will setup a drop to 41.80 med-term for further shorting on bounces.
- **Kumba-IO:** see Chart 6.
- **Lonmin:** see update above.
- **M&R-Hld:** is moving in sideways patterns in the short and med-term. Exit longs near 42.50. If it closes above 42.65 then buy (re-enter), for a move to 46. Stop a close below 41. It appears to be forming a base but needs to do more work to warrant a buy signal for investors.
- **Massmart:** got within a few cents of our 113 target. Has had sharp rebound but I don't think it will last too long. It is testing resistance at 126.20 today. There's no trade here right now. It could still retest its 130 high.
- **Merafe:** stopped at 1.23 so far, our target was 1.21. Today it's giving a rally but probably not for long. When it's that close to a target one should take half if not all profits. Hold the part that's still short and a reversal day down from 1.30 will be another short signal. Stop is a close above 1.31 right now. It is pointing to a downside target of 1.10.
- **MondiPlc:** exceeded the first shorting target for some profit taking and stopped above the second target. Gave a reversal candle on Thursday which was the signal to exit shorts. It may well retest its recent 55.80 high. A reversal down from there to be shorted (with caution) because it's a strong stock, but I think it will have a large correction from there e.g. to 43.
- **MrPrice:** did not drop so much as 44.50. It's bounced back more than I expected. This is probably its final rally before a larger sell-off. It could retest 51.20 again in the coming days, but it is high on a med-term basis. Because its consistency been one of the strongest stocks on the market it's not a stock to be shorting.
- **MTN-Group:** gave the mentioned pullback for buying (traders) and is rally nicely from there. Take some profits at 123.80 and more at/near 125. There is some solid resistance at 126.
- **Naspers-N:** stopped close to our 277 target on the short trade and the balance of profits taken on the mentioned trialing stop. A close above 298 today will be a buy signal for the short-term only but with extreme caution if you decide to take it. Target to 313, but no large positions advised. Stop a close below 194.50. If that stop gets triggered, sell it short for a drop to 275.50. Stop above the highest point of the current relief rally.

- **Nedbank:** is getting toppish at the 141.50 level, but corporate activity here makes it less predictable. My sense is it will sell off from there to 136, where we'll reevaluate.
- **Netcare:** has pulled back to med-term support at 13.10. Aggressive traders only, can buy at current levels but with a very tight stop as a close below 13.10. Target to 13.60 for some profit taking and more at 13.75. But a close below 13.10 will be a short signal for a drop to 12.35. Stop will be a close above 13.60.
- **Newgold:** gave a reversal candle down yesterday but is still holding up well. If it closes below 88 then sell it short for a drop to 85.80 and potentially 83.80. In the meantime it can still continue up to 91.20 where there is resistance.
- **Old Mutual:** if you sold short on Mondays it will have been stopped out today for a very small loss. I still think this stock is making a final high before a large sell-off. Wait for a close below 14.20 to sell short (that level is rising at an angle of 5c per day). Target will be 13.25 initially, with further potential to 11.60 med-term but it needs more confirmation of that first.
- **Pick'nPay:** sell it short on a reversal day down from 45.20. Target to 40.50. Stop above the high of the reversal day.
- **PPC:** see Chart 5.
- **Reinet:** closed below the mentioned support level to trigger a short trade. Minimum target is 10.40. One needs to be a bit patient right now as the overall market has its relief rally. Hold if short. Stop is a close above 11.35.
- **Remgro:** has stopped a bit above the 94 shorting target. When it's that close though take at least some profits. If it gets back to 103 then short some more. Stop a close above 104.50. Target is 94.50.
- **Richemont:** reached and exceeded our first shorting target for some profit taking. It has reversed up and a trailing atop always to be used, particularly if it's either near to a target or especially if its reached its first target, like this one did. Today it is rallying sharply and broken out above short-term resistance. It is pointing to a target of 30.80. Aggressive traders only, can buy but no large positions. Stop is a close below 28.20. This will be its last rally before a much larger correction I believe.
- **RMBH:** sell it short on a reversal down from 33.75 or higher e.g. 34.15. Lock in partial profits then at 31.50 on the way back down. A close below 31.40 will setup a larger drop to 27 for shorting again.
- **SABMiller:** has broken down below important med-term support, to trigger the short trade. This is more a med-term signal. It is bouncing today and look for it to continue to 217.50 and maybe to 220. A reversal day down from either of these two levels to be shorted again. Med-term target is 193. Stop is a close above 223.
- **Sanlam:** short it on a bounce to 24-24.30. Target down to 22 initially. Stop above the reversal days high or a close above 24.85.
- **Sappi:** see Chart 7.
- **Sasol:** it giving the relief rally today. Short it on a reversal day down from 290 or higher. Target to 267. Stop a close above 295 (after it's reversed down first).
- **Shoprite:** got to the 90.50 target for a nice short-term trade. It's getting overbought in the short-term and can reverse down again at any time. No shorting of this stock advised.
- **Spar:** like SHP it has rallied sharply in recent days. No reversal day down to short on, but it is getting overbought. A clear reversal day down from 86 or higher can be shorted, with caution. Target to 78.50. Stop a close above 87.
- **Stanbank:** is giving a relief rally after being hit very hard. Short it again on a reversal down from 107. If it doesn't happen there then from 109. A close below 100 will setup a drop to 86.
- **Steinhoff:** got within a few cents of our 17.40 shorting target which is close enough to be taking profits. A close above 18.85 will setup a move to 19.30, which will be a good place to be shorting it from again. Stop a close above 19.60. Target to 17.50.

- **Telkom:** buy it at 32.65 or not at all. Target to 34.90 but no large position size advised. Stop a close below 32.50.
- **Tigbrands:** has had a sharp relief rally but no reversal candle down to short on yet. Short it on a reversal day down from 187. Target to 168.70. Stop a close above 191.
- **Truwths:** has had a sharp rally back and will most likely retest its high of 59.77. This should be its last rally for a while I believe. Support is 53.25. If it breaks that level then look at shorting. Certainly no buying advised now.
- **Vodacom:** hold short/sell short on a rally to 63.50 or higher. Target to 53.80 med-term. Short-term there is support at 58.30 where one can tighten stops to a breaking of prior tow day high. Stop is a close above 64.40.
- **Woolies:** sell short on a reversal day down from 25Target t o22. Stop a close above 26.20.

GOLD UPDATE: The JSE gold index is rallying back after its pullback and has resistance at 2540. It is getting overbought. Gold shares might rise a bit more in the short-term but I don't think too much more. I'm wary of buying gold stocks at these levels. At a maximum the index will go to 2605. I think it's coming to the end of its run that started in late-July.

Dollar gold price: has now reached and it's exceeded its minimum short-term target of \$1242. It's overbought but may well continue a bit higher still to a new all time high above \$1261. Tighten trailing stops to a breaking of its prior 2 day low. One positive in the short-term is that September is seasonally a good month for the gold price. That might keep it going for longer, but be aware that it is overbought in the short-term, with neg. divergences appearing on the oscillators. Big picture still good.

Rand gold price: has continued making its way higher and is nearing resistance at 9245. A combination of a weaker rand and strong gold price is keeping it going. It is overbought so caution advised on the upside. Support for a pullback its 9020. It can have a correction at any time, I believe.

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 01 Sep. '10) Price (R) 20-Day MA: 40-Day MA:

ABSA	124.4000	127.1390	130.5940
ANGLO	265.9900	276.1665	278.2115
ANGLOPLAT	630.0000	671.0475	694.9335
ARM	151.1400	160.3475	163.8242
ASTRAL	106.5000	110.6130	110.6960
BARWORLD	42.5500	42.9770	43.4108
BASREAD	11.4500	12.3810	12.4473

BATS	252.0800	252.5950	254.2130
COAL	9.5000	9.8070	11.0850
EHSV	79.9500	81.8740	82.6230
FIRSTRND	18.8500	19.0100	19.4543
ILIAD	7.6000	7.6045	7.8185
ILLOVO	25.8000	26.3280	27.4310
IMPLATS	177.0000	187.7955	189.7835
INVPLC	53.6000	53.7525	54.4185
KUMBA-IO	332.0000	345.6960	347.6110
LIB-HOLD	70.9000	74.3790	75.2300
MVELA-RES	38.9500	41.3945	42.8910
NORTHAM	40.6900	42.4865	43.4390
PALAMIN	98.0000	100.9590	103.1675
PPC	29.3400	30.4510	30.8700
REINET	11.0900	11.2025	11.3250
REUNERT	57.3000	57.7460	58.0625
RICHEMONT	28.2300	28.2980	28.3675
SA-BREWS	211.2000	215.3265	218.1983
SANLAM	23.5700	23.8480	24.1192
STANBANK	103.5000	105.3525	108.6152
TONGAAT	101.1900	102.0075	104.6560
WOOLIES	24.0000	24.2505	24.6820

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

I-NASDAQ	2119.9700	2205.3401	2215.6189
I-NIKKEI	9149.2598	9275.2305	9377.7803
I-SP500	1048.9200	1087.2510	1087.4200
M-PLATZAR	11223.9297	11235.0439	11352.5059
C-\$-JYEN	84.4200	85.4800	86.5228
C-EUR-GBP	81.7800	82.3465	82.9922
C-EUR-YEN	106.2000	110.0750	110.9925
C-EUR-ZAR	929.5900	940.2135	952.2495
C-GBP-YEN	130.9400	133.7970	133.8845
C-GBP-ZAR	1134.8600	1141.4285	1145.4504

SUMMARY

We're finally seeing a relief rally that's lasting more than two days. This is welcome news for those traders who've been patiently waiting for their chance to sell short (on a high probability basis). I believe this opportunity will come very soon, perhaps within the next few days. The focus should therefore be to look out for reversals to the downside, most likely on a bit more upside in the coming days.

The next leg to the downside I believe will be more vicious than the one we've seen over the past month.

Note also that September is seasonally the weakest month in the year for the S&P 500 index. Whether that annual pattern plays out this year remains to be seen, but the stage does look set for it to happen again (i.e. a weak month).

There is therefore no change to our overall strategy of waiting for rallies to sell short (such as were currently in), and for investors with cash not to get back in yet.

Sincerely,

Colin Abrams
TheMarket.co.za

PS: Remember: Protective stops on all positions!

GLOSSARY OF TERMS USED IN *TheMarket.co.za* NEWSLETTER:

- **Bearish/Bullish Engulfing Pattern:** A candlestick whose entire body ‘engulfs’ the body of the prior candlestick. Is bearish if found after a rally; or bullish if found after a drop.
- **Bottoming tail:** A price candle where the price falls sharply from the open, but then recovers to rally strongly into the close. A bullish sign.
- **(Japanese) Candlesticks:** Price bars (called ‘candles’) which accentuate the open-close relationship. Is an alternative to the Western bar-chart.
- **CFDs:** (Contract-for-difference) is a leveraged instrument, like a futures contract except there is no expiry date, and one trades the underlying itself, not a derivative of it.
- **Closing price (or the 'close'):** the last price of the specific time period chart e.g. last price of the day for a daily chart. If trading on the close, either execute your trade just before 5pm (if the specific signal is triggering), or first thing the next morning.
- **Countertrend:** 'going' (trading) counter to the main trend. E.g. if the main trend is up, then a countertrend trade will be to sell short. (Note it is always risky to take a countertrend trade, and generally not recommended. Remember, 'the trend is your friend').
- **Doji candle:** A price bar (candle) where the opening price is equal to the closing price. Denotes indecision. Typically precedes a trend change.
- **Double top:** Refers to the rise of a stock's price, a drop, and then a rise back to the same level as the original rise – all occurring after a significant rally. Bearish.
- **Elliot Wave Theory:** Each trend is made up of five waves in the direction of the main trend. (It can be further subdivided into the same sequence of waves on a smaller time frame).
- **Fibonacci retracement level:** A point where prices typically find resistance/support when retracing a prior move - the most significant is 61.8% (others are 38.2%, 50%, 78.6%).
- **Fibonacci extensions:** Using Fibonacci numbers (e.g. 61.8%, 161.8%, 261.8%) to project future price targets (or reversal areas) based on the length of prior price swings in a particular stock
- **Gravestone Doji:** A candlestick that rallies sharply after the open, but then reverses down and closes at same level as the open (which is at the low of the bar). Looks like a gravestone. Bearish.
- **Head-and-Shoulders price target:** the minimum target is the height of the pattern to the “neckline” projected downwards from the breakdown point.
- **Long position:** Opposite of selling short i.e. buying because one expects the price to rise
- **MACD:** stands for Moving Average Convergence/Divergence. Is the difference between a 12-day and 26-day exponential moving average, plotted as a single line. Shows price extremes.

- **Negative Divergence:** Is typically a bearish sign occurring when an indicator (e.g. RSI) fails to make a high, but the price itself does i.e. setting up a divergence between the indicator and the price.
- **Overbought:** an area on an oscillator that typically indicates when more buying than selling (which has pushed prices up) is reaching an extreme level. A fall or correction is then due.
- **Oversold:** an area on an oscillator which typically indicates when more selling than buying (which has forced prices down) is reaching an extreme level. A rally is then due.
- **Pivot high:** A high, with a lower high on either side of it.
- **Pivot low:** A low, with a higher low on either side of it.
- **Positive Divergence:** Occurs when the price makes a new low, but the indicator does not i.e. setting up a divergence between the price and the indicator. Bullish.
- **Relative Strength (or 'Ratio') Analysis:** comparing one market or stock to another to see which is outperforming on a relative basis. Not to be confused with Relative Strength Index (RSI).
- **Resistance:** A level *above* the market where selling is greater than buying (i.e. supply).
- **Reversal Bar (Day):** Occurs when the price makes a new low relative to the previous price bar's low, but then reverses and rallies to close above the previous bar's close (bullish). And vice versa for a bearish reversal day. It typically signals a change in trend. Note, the larger the range of the reversal day, the better.
- **Reversal candlestick:** Typically bullish when the price opens low, then weakens, but rallies strongly into the close, to close near the day's high e.g. hammer, bullish engulfing pattern, piercing pattern. Vice versa for bearish signals e.g. shooting star, bearish engulfing pattern, dark cloud cover. Note, the larger the range of the reversal candle, the better.
- **Risk-Reward ratio (good):** A trade where the potential profit is at least 3x the potential loss.
- **Selling short (or 'shorting'):** Expecting prices to drop, so selling first and buying-back later.
- **Short position:** A trade where one has sold short (as above)
- **Shooting Star (candlestick) –** A candle that suggests a minor (at least) reversal. The body of the candle is near the low, and the line has a long upper 'tail'.
- **Spot Price:** the price of the underlying instrument itself i.e. not the futures price.
- **Support:** A level *below* the market where buying is greater than selling (i.e. demand).
- **SSF's:** Single Stock Futures.
- **Stop-loss:** point where you close the trade if it moves against you - to protect yourself.
- **Time frames:** (approximately) Short-term: 0-6 weeks; Medium-term: 2-5 months; Long-term: 1yr + (for purposes of TheMarket.co.za analysis report).
- **Trailing stop-loss (or 'trailing a stop'):** moving the stop in the direction of the market to lock-in profit e.g. a breaking of prior day's high/low, or a percentage retracement of the current move (e.g. 50%), or the breaking of a moving average e.g. 10-day MA for the short-term, or 50-day MA for medium-term.
- **Weekly close:** the closing price on Friday afternoon.

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