

Welcome to TheMarket.co.za Weekly Analysis Report

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By Colin Abrams

Classic Trading Rule:

"The three E's: Rule No. 1 is having an entry price, an exit price, and an escape price in case of a worst-case scenario."

RELIEF FOR RETAILERS TO CONTINUE

Introduction:

Ongoing strength in the rand is giving retail stocks a big boost as they continue their recovery. The JSE general retail index momentarily dropped below important support recently but has bounced back, and this implies further rallying in retail stocks to come. Other currency sensitive stocks, like banks, are also set up for more upside. Some of them have been badly beaten down of late, so there is good upside potential there. Resources stocks may well take a bit of a breather as money rotates (partially) into banks and retail.

The **S&P 500 index** is high, but any correction will be temporary as it makes its way to an all time high retest. The **JSE All Share index** chart shows it getting nearer to its first target, which is resistance from January 2018. We focus on platinum, with the **dollar platinum price** having given an important breakout, and likewise for the **rand platinum price**. Weakness in plat stocks are certainly to be bought. The stock charts shown are **Mr-Price** (large breakout today), **Telkom** (oversold again), and **Dischem** (recovery potential).

The small-cap chart is **Jubilee**, a junior platinum stock, with a higher target.

Overall, the strong rand right now while giving retail and bank stocks a big boost, is likely to put resi stocks under a bit of pressure. So don't be surprised if we get some pulling back in that sector. Weakness in resi stocks though are certainly still to be bought. Indeed precious metals themselves have large upside potential, and platinum is the latest to give a breakout. Take a look at silver as well.

Executive Summary:

- **S&P 500 Inx (chart 1):** Minor pullbacks are buyable on an ongoing bias e.g. to 2855
- **All Share Inx: (chart 2):** Tighten stop to prior one day low. Buy a pullback to the 57 200 or lower
- **Platinum (\$): (chart 3):** Buy a pullback closer to line 1
- **Rand platinum price (chart 4):** Buy (Newplat) at current levels or better
- **Mr-Price (chart 5):** Buy at current levels
- **Telkom (chart 6):** Buy at current levels if not already in
- **Dischem (chart 7):** Buy a close above line 2
- **Jubilee (chart 8):** Buy only if it pulls back to 60c or lower
- **Leading Stocks (3-mths):** **Top 40** – Angloplat, BATS, Anglo, Capitec, Gfields, PSG, Anggold.
Resources 10 – Implats, Angloplat, Exxaro, Anglo, Gfields.
- **Shortable stocks/instruments: 24**

1. MARKET CHARTS

S&P 500 INDEX – ‘Hugging’ resistance

Recommendation: BUY ON ANY WEAKNESS

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

Strategy: Minor pullbacks are buyable on an ongoing bias e.g. to 2855.

Chart 1. (Daily)

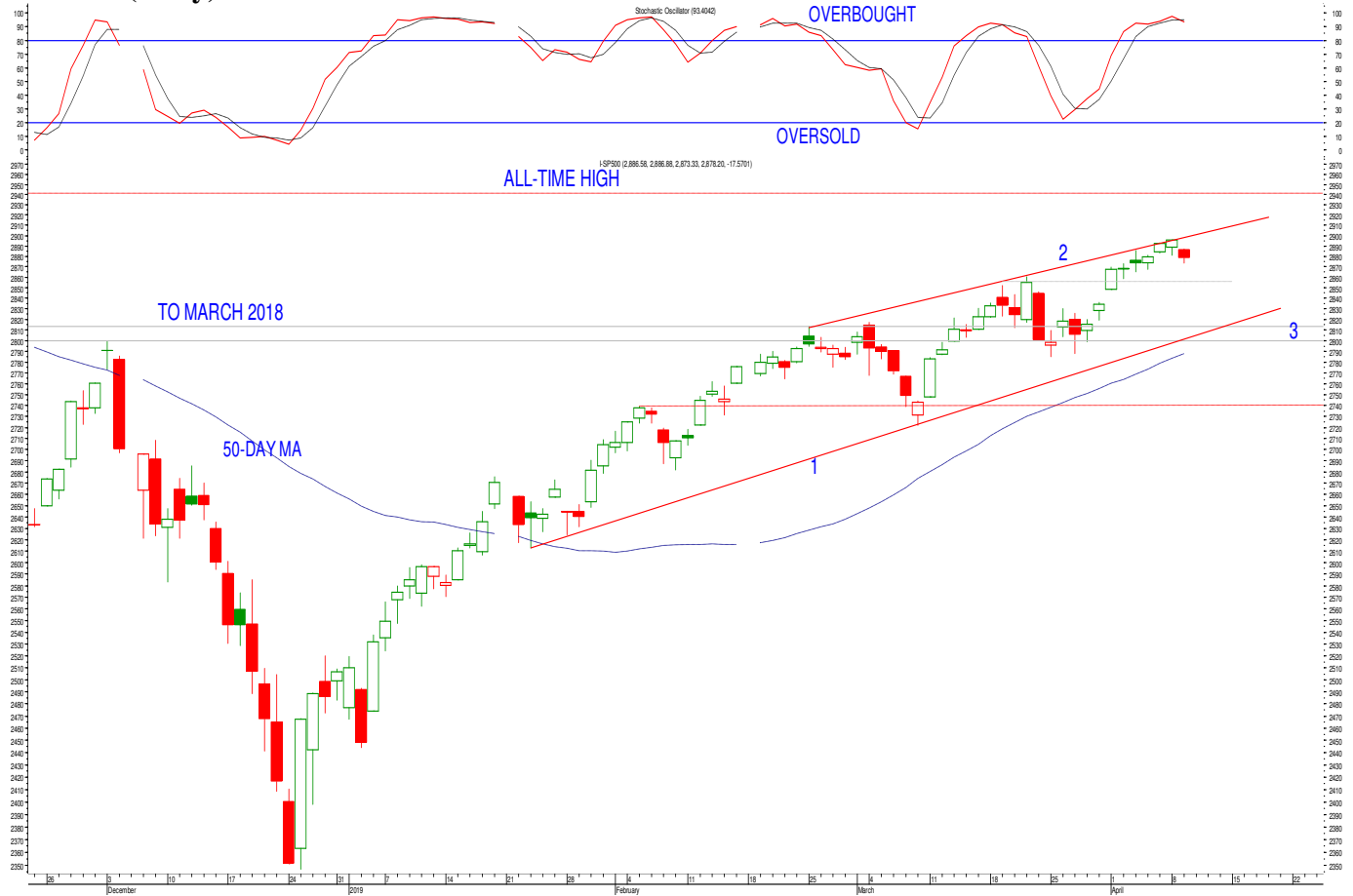


Chart Setup: The index continued up to line 2 and its 2886 target there. It’s on its way to a new all time high and any weakness is still to be bought.

- Its Stochastic is overbought so it can give a correction at any time.

Strategy Details: A pullback to 2855 (or lower) is buyable, on a reversal day/candle up,

Target: Right now, to test line 2 again at 2900. Then eventually to 2940 its all time high. Pullback potential to 2855. Note, lines 1 and 3 support are at 2810 level.

Stop-loss: A close below the reversal day’s low when buying on a pullback. Med-term stop is a close below 2799 (both lines 3).

Recommendation: TIGHTEN STOPS IF LONG/BUY LOWER DOWN

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

Strategy: Tighten stop to prior one day low. Buy a pullback to the 57 200 or lower.

Chart 2. (Daily)

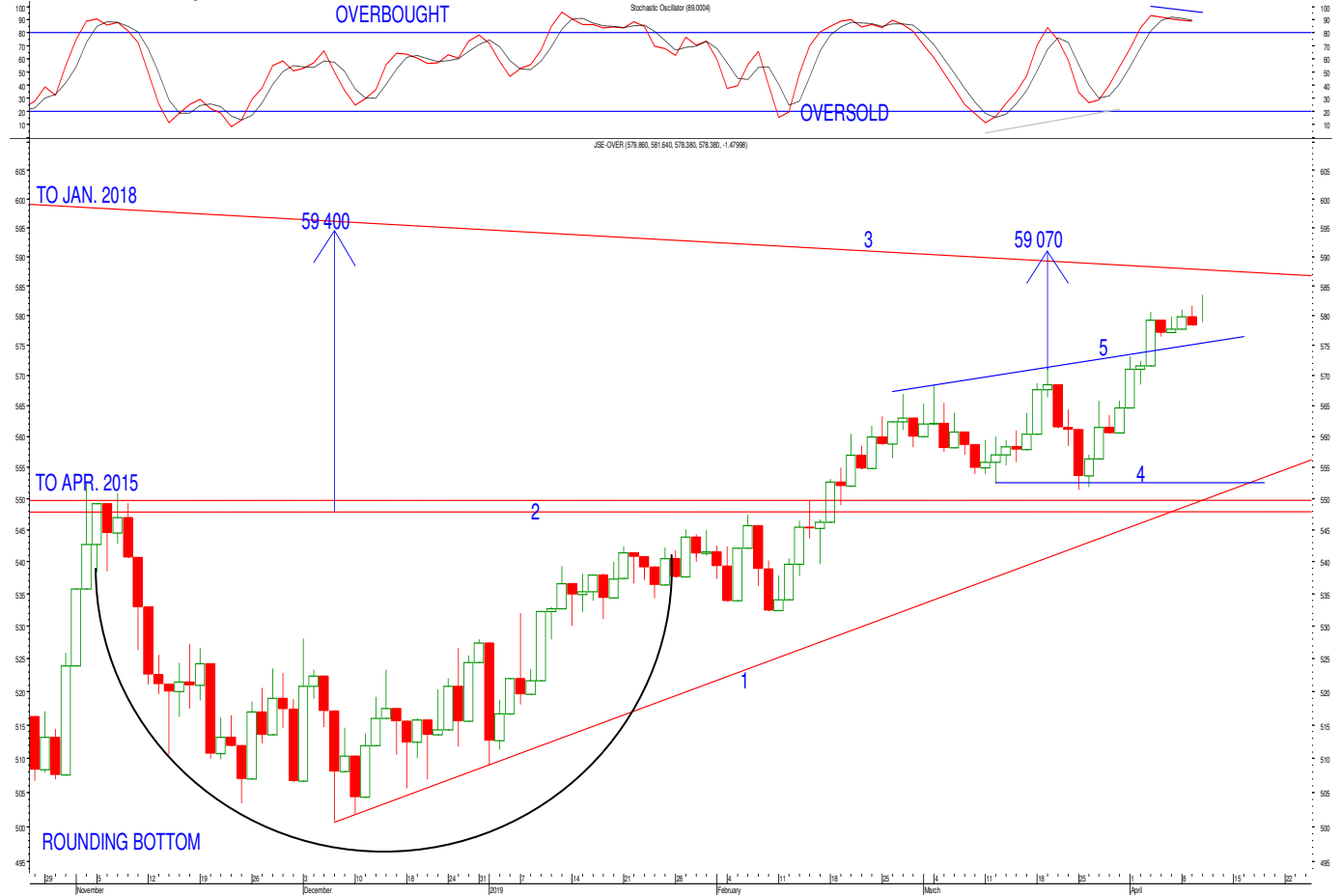


Chart Setup: Heading to resistance at line 3, but it is getting extended in the very short-term.

- Its Stochastic is giving a negative divergence from its overbought level, pointing to a pullback.

Strategy Details: Short-term traders only, tighten stop to a breaking of its prior one day low. (Med-term hold). Go long again from the 57 200 level or lower, on a reversal day/candle up.

Target: Higher target still to 59 070, based on broadening formation 4-5. There is prior resistance at line 3 (58 780) to take at least half profits. Main target still 59 400, based on its rounding bottom.

Stop-loss: A close below 56 400 when buying on the pullback. And below 55 100 (line 1) for med-term players.

PLATINUM PRICE (\$) – Important breakout

Recommendation: BUY

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

Strategy: Buy a pullback closer to line 1.

Chart 3. (Daily)



Chart Setup: It's formed two rounding bottoms. It has stalled at long-term resistance (line 2) after a breakout last week, and is retesting its breakout level.

- Its short-term Stochastic is overbought so it can pull back more right now.

Strategy Details: Buy a pullback closer to line 1 at \$877. (But one can buy some now to get a line in).

Target: First target is \$990, based on the smaller rounding bottom. Take most profits here. Thereafter, to line 3 at \$1025, based on the larger rounding bottom.

Stop-loss: A close below line 4 support (i.e. below \$845).

RAND PLATINUM PRICE – Finally breaks resistance

Recommendation: BUY

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

Strategy: Buy (Newplat) at current levels or better.

Chart 4. (Daily)



Chart Setup: The rand platinum price has finally given an upside breakout. This is part of a large rounding bottom. (The platinum stocks have been discounting this, but its still good news for platinum stocks).

Strategy Details: Buy it via Newplat the locally listed ETF of the rand platinum price.

Target: Up to R14 100 on the rand platinum price, and R141 on Newplat itself.

Stop-loss: A close below R113.35 on Newplat.

MR-PRICE (MRP) – Solid buying on breakout

Recommendation: TRADERS BUY

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

Strategy: Buy at current levels.

Chart 5. (Daily)



Chart Setup: MRP is breaking out to confirm an inverse head and shoulders today. One concern is that it faces resistance at line 2 (R204.80).

- It Stochastic is relatively overbought, so caution on the upside, but it's still worth buying.

Strategy Details: Buy at current levels (unless it sells off sharply by the end of today).

Target: Minimum target of R218, based on the inverse H/Sh. Line 3 resistance is in that area at R220.50, so take profits in that R218-R220 zone.

Stop-loss: A close below R197.50 (line 1).

LATE FLASH: It's moving up a lot already today late afternoon, so preferably buy if it pulls back closer to line 1. Or consider other retail stocks e.g. TFG, TRU, or PPH, and I particularly like food retailer Pick 'n Pay right now.

TELKOM (TKG) – A low-risk buy

Recommendation: BUY

Current Trend: Short-term sideways. Med and long-term up.

Strategy: Buy at current levels if not already in.

Chart 6. (Daily)



Chart Setup: Telkom, one of the market leaders, is giving a pullback to support at line 1, in a well-established uptrend.

- Its short-term Stochastic is giving a positive divergence from its oversold level, warning of a rally.

Strategy Details: Buy at current levels if not already in.

Target: A close above line 2 (at R73.90 today Weds, and declining by 30c per day) will target to line 3 (R80.70) to take most profits. Potential to line 4 at R87.50 eventually.

Stop-loss: A close below R71.00 (which is also below line 1).

DISCHEM (DCP) – Recovery potential

Recommendation: BUY A BREAKOUT

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

Strategy: Buy a close above line 2.

Chart 7. (Daily)



Chart Setup: Dischem is currently breaking out of a symmetrical triangle and has decent recovery potential.

- Its short-term Stochastic (on top) is overbought, but has given a large positive divergence. Its *weekly* Stochastic is showing good upside potential.

Strategy Details: Buy a close above line 2 (R25.80).

Target: Minimum target to R28.40, based on the triangle projected up. Take at least half profits there. Further potential to line 3 at R30.50.

Stop-loss: A close below R24.50

2. SMALL-CAP. CHART

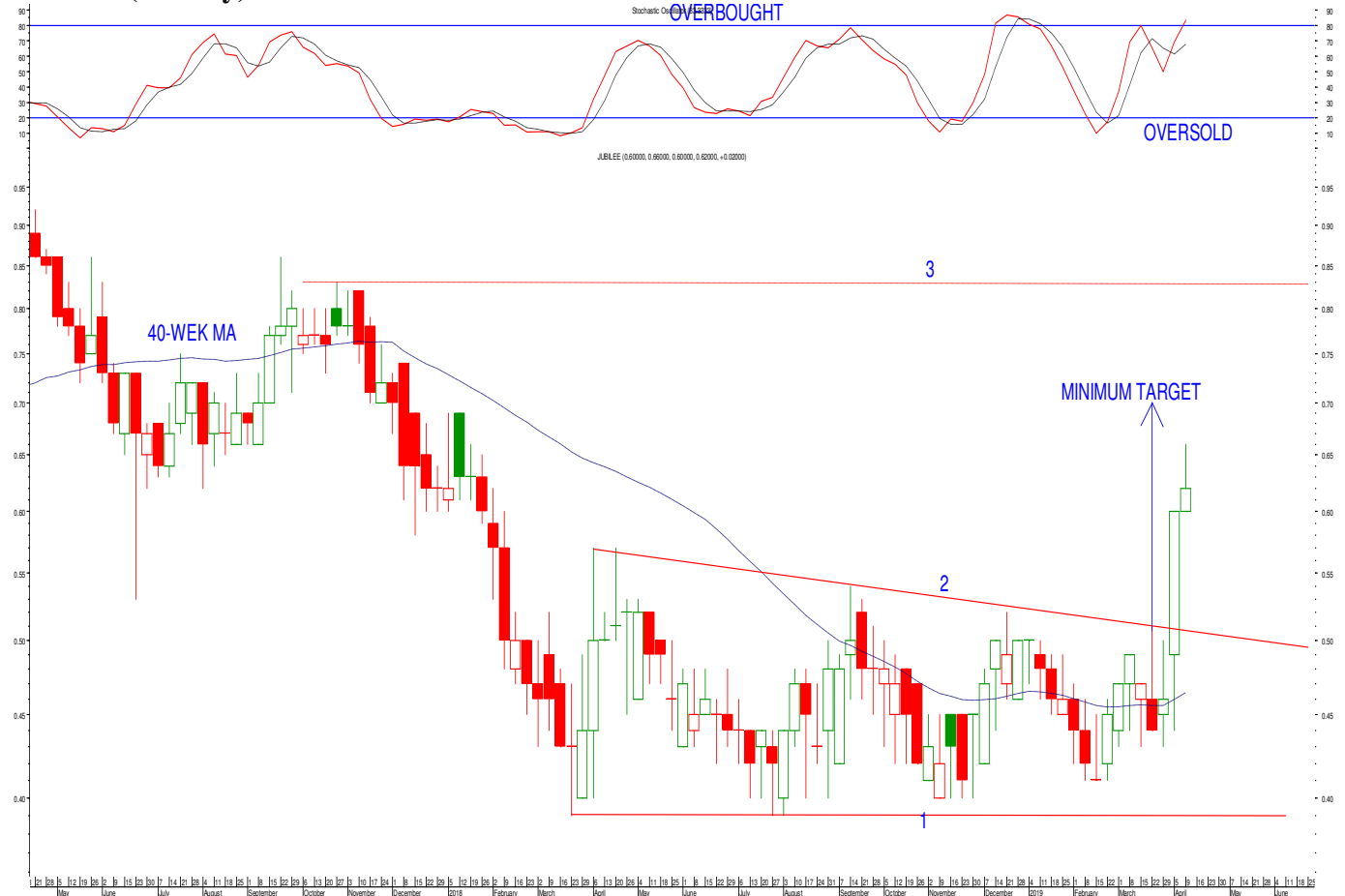
JUBILEE (JBL) – Higher target

Broad Recommendation: BUY ONLY ON A PULLBACK

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

Strategy: Buy only if it pulls back to 60c or lower.

Chart 8. (Weekly)



Sector: Platinum

Price: 62c

Chart Setup: Jubilee recently broke out of a large descending triangle and has had a good run. It still has higher to go before reaching its minimum target, but due to the large run already only buy on weakness.

Strategy Details: Buy only if it pulls back to 60c or lower (ideally 58c).

Target: Minimum target to 70c, based on the triangle projected up. Take half profits there. Take the rest eventually at line 3 at 82c.

Stop-loss: A close below 54c. From 70c bring stop to breakeven on remainder (i.e. second half) of this trade.

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

- Afro-C, Astoria, Tharisa, Quantum.

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: Angloplat, BATS, Anglo, Capitec, Gfields, PSG, Anggold.

Weakest seven Top 40 stocks: Aspen, Mr-Price, Woolies, Shoprit, Vodacom, Discovery, Sappi.

Strongest five Resi 10 stocks: Implats, Angloplat, Exxaro, Anglo, Gfields.

Resi 10 vs. Findi 30 over 3-months: Resi 20 index is stronger.

THE FIVE STRONGEST STOCKS IN ESTABLISHED UPTRENDS:

These are the 5 best candidates to buy either right now or on a minor pullback (in order):

1. Implats
2. Lonmin
3. Sibanye
4. Angloplat
5. Kumba-IO

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

- **Naspers-N:** it's still doing very well and will continue to for some time still. It's nearing its minimum target of 3645 and short-term traders only, tighten a trailing stop to a prior two day low. Med-term continue to hold regardless. An eventual retest of its all time high of 4017 is very likely. Right now there is some resistance at 3615. Any pullback to below 3400 is buyable again.
- **Anglo:** has now got within touching distance of its 410 med-term (minimum) target. I would be taking more short-term profits, but if preferred use a prior one day low break as a trailing stop. A correction to the 388 level will be buyable again. Beyond 410 potential to 430.
- **Stanbank:** it's looking good today so far. Buy at least part of a position in anticipation of an upside breakout. Buy the rest on a close above 197.70. That breakout will target 217 at least. The stronger rand will (hopefully) see bank stocks have a good rally. Stop a close below 179.50. When it closes above 197.70 for the breakout, raise it to a close below 185.50.

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 i.e. the entry 'trigger').

- 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 Charts 5, 6, and 7, that I particularly like (long or short) at the moment (in no particular order. See comments below):

- **PSG, Capitec, Pick 'n Pay, Exxaro, Barworld, Sappi, Clicks, Discovery, Old Mutual, Spar.**
- **AB-Inbev:** needs to close above 1230 to get going higher again, but continue to hold. Med-term target still 1320. Stop a close below 1115. No harm in locking in partial profits now because the strong rand will probably see it pull back a bit.
- **Anggold:** hold. Stop a close below 179.00. Target to 205 for partial profits then 222.87.
- **Angloplat:** take remaining short-term profits on a prior one day low break, and look to re-enter on a pullback to 763-745 on a reversal day up. As mentioned here last week I think plat stocks will have one more short-term drop before heading up again in earnest. The next main upside target here will be 987.
- **Anglo:** see update above.
- **ARM:** triggered the new buy signal to target 196. I like this stock best as a med-term hold. It can be bought on a pull back to 161 if not in.
- **Aspen:** generally a short on bounces still but there are better shorts out there so no new trade either way.
- **Assore:** hold. Target is 412 for partial profit taking. Main target 510 med-term. Stop a close below 359.
- **Barworld:** I still like its chart a lot as it forms a nice rounding bottom. Buy again on a close above 137.80 or a pullback to the 130 level or lower, whichever happens first. Stop a close below 125. Target then 166 med-term.
- **BATS:** short-term stop triggered as the stronger rand is putting it under pressure. It is in a med-term uptrend though and it is reaching a support zone right now but only re-enter if it reverses up from 540 level. Med-term stop is a close below 515. Target eventually to 687 but this is a medium conviction trade (not high).
- **Bidvest:** reached its two short-term upside profit targets. It needs to give a decisive breakout above 212 to get going again. Preferably look to buy again on a pullback e.g. to 202 level. Breakout potential to 230.
- **BHP:** a close above 359.50 will get it going again and a short-term breakout to buy. Next target is 368/371. In the meantime buy on weakness a pullback to 346 level.
- **Capitec:** it's forming a bull flag and is likely to continue up again at any time, it's buyable now for a short-term trade if not in. But its still best held as a med-term play. Next target is 1424-1430.
- **Clicks:** it's reversing up off its med-term support level and is a buy if not in. Stop still a close below 172.00. Take partial profits at 190 and the rest 199.
- **Dischem:** see Chart 7.
- **Discovery:** exit if you shorted based on Monday's reversal day down. While it's in a downtrend it's forming a potential inverse H/Sh. A close above 144.60 will confirm it to go long. That will target 156. Stop a close below 139.
- **Exxaro:** I like its chart from a med-term point of view. It is targeting 205. Is overbought right now so buy on more of a pullback e.g. from 170 or lower.
- **Firstrnd:** hold, target is still 68.50. But a close above 66 will target 70.40. So try buy on some minor weakness if not in.

- **Glencore:** its main target is still 63.70-64.75. Hold, and add to it on a pullback to 58.50 level. Stop a close below 58.
- **Implats:** it's selling off today so far and as mentioned last week, I think it can still have one more move down before heading up again sharply. This is part of an a-b-c correction. Look to buy from the 58 level ideally. Med-term of course it's certainly still a hold. We're talking about short-term trading around that med-term position. Main upside target still 88.
- **Kumba-IO:** it's holding up very well still but is buyable again on weakness e.g. 430 level. Next main target (med-term) is 525. Pullbacks buyable on an ongoing basis. Potential to eventually retest its all time high above 600.
- **MondiPlc:** sell short, but with caution. Target to 300 but take partial profits at 311. Stop above 335.
- **Mr-Price:** see Chart 5.
- **MTN-Group:** it's trying to recover again but it needs to do more to warrant buying.
- **Naspers-N:** see update above.
- **OMutual:** it building up for a med-term breakout. A close above 2340 (its nearing that level today) will be a breakout for a target of 2630 med-term to buy.
- **Pick 'n Pay:** a close above 7117 is a buy for a minimum target of 78.50 (to confirm a double bottom) for half profits and there rest at 80. Stop a close below 65 initially.
- **PSG:** it's formed a bull flag and looks to be breaking out of it today. It's still a hold and buy at current levels if not in. Target is still 276-278. Thereafter to 281. Ultimately it can go to 296 over the med-term.
- **Richemont:** it's dropped sharply triggering a short-term stop. This breakdown is targeting 94.80 at least. It is shortable to there if you can get a decent risk/reward on it e.g. shorting after a bounce. Use a prior two day high as the stop then.
- **Sanlam:** continue to hold. Targets as given last week are still 81.60 at least for partial profits, and thereafter probably to 84.50. Stop a close below 74.00. It's also forming an inverse H/Sh although not classic. A close above 78.75 will target 85.80, which will also be a new buy signal if not in.
- **Sappi:** bounces remain shortable, like the bounce it's currently in. Hold current short. Downside target to 50 med-term. Stop a close above 72.00 for now.
- **Sasol:** got to its first profit target, and is nearing its further one given of 475/480. There is resistance at 482.20. If you've still got some on, raise stop to a prior one day low.
- **Shoprite:** while technically it's in a downtrend I can't help feeling it's bottomed. Technically it needs to close above 177.60 to break its downtrend, and then one would start looking for pullbacks to buy. Med-term+ though I think it's a low risk buy now.
- **Sibanye:** this Stillwater issue is diluting its price today but it remains an excellent med-term hold. There are too many issues going to in the very short-term to trade it, so continue to keep as a med-term play. Support s 14.00 where it might rally from.
- **Spar:** buy a close above 200 to target 217. Stop then below 195.
- **Stanbank:** see update above.
- **Telkom:** see Chart 6.
- **Tigbrands:** still no new trade as it remains sideways bound.
- **Vodacom:** It needs to close above 117.80 to break its downtrend; that will target 126 and is buyable. For now technically it's in a downtrend.
- **Woolies:** a close above 49 will be a buy signal to confirm a double bottom; to target 55. Stop then below 47.

GOLD UPDATE: After an initial rally the JSE gold index is pulling back sharply today. As such, it may well retest support at 1480. Below the support is 1400. Caution advised right now with gold shares because strong rand is putting gold stocks under some pressure (although the gold price is holding up

well). But overall, we're in a consolidation phase here that will lead to an upside breakout (a close above 1685 will confirm it), and that will target 1915.

- **Dollar gold price:** rallied off the given support level and is nearing some resistance at 1312 to take partial trading profits. A close above 1315 will target 1360 and be a buy signal if not in. Bring stop to breakeven on this trade. New stop after a breakout will be below 1291.

USD/ZAR: after getting to its targets at 14.05-13.95 it did give a reversal candle but today's rally is reason to exit if you shorted the rand in recent days. While the dollar is oversold, the rand looks to want to rally further, and go straight to its targets of 13.85-13.65 given last week. I wouldn't go long rands at these levels, but if it weakens e.g. to 14.20 level then go long the rand. And targets as above.

5. SHORTABLE (DOWN-TRENDING):

Please note:

- We list the stocks, and indices (local and overseas) that are in well-established 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 30-day moving average. The moving average tends to act as loose 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.

Down-trending Stocks: 30-Day MA:

AFROX	24.166
ASCENDIS	4.5363
ASPEN	108.8543
BRAIT	25.3077
CASHBIL	252.7337
CURRO	23.7063
EOH	14.4
FORTRESSB	11.814
HYPROP	75.877
ITUPLC	20.416
JSE	149.0417
LIB-HOLD	100.89
MASSMART	84.8287
MONDIPLC	330.9073
NAMPAK	11.395
NETCARE	24.848
OMNIA	56.136
PPC	4.8923
SAPPI	69.9547
TONGAAT	21.8817

VODACOM 114.0827
WBHO 113.472

Int'l Instruments: 30-Day MA:

C-EUR-\$ 112.9033
C-EUR-GBP 85.6627

OVERALL SUMMARY

Relief for local retail stocks is likely to continue as we see the rand power back somewhat. I believe the rand is discounting a sizeable drop in the dollar index to come. Such a drop will send the gold, platinum, and silver prices sharply higher again.

So, right now there are some good trades lining up in the underlying precious metals themselves. I like the look of silver a lot (chart shown in last week's newsletter).

Resources stocks though are also affected by the rand, and local resi stocks are overbought. So if we get some weakness in resi stocks (which we are likely to), that weakness will be for doing some more buying. In the meantime, tighten stops for short-term positions in resi stocks.

While some retail stocks have already run very hard today (e.g. Mr-Price), a minor pullback in retailers and banks will certainly be buyable as well.

Sincerely,

Colin Abrams
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PS: Remember: Protective stops on all positions!

DEFINITIONS:

- **Short-term:** A few days to a few weeks e.g. 3-4 weeks.
- **Med-term:** About 2-5 months.
- **Long-term:** About 10-18 months.
- **Reversal candlestick:** Typically bullish when the price opens low, ideally makes a new low, but then reverses and 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.

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