

# U.S. Charting—Relevant Here?

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It would not be unnatural for the Australian student of charting to look to the experience of chartists in the two largest stock markets in the world, London and Wall Street. To his dismay he would find that the protection of the jobbers in the London market is regarded as more important than the clear reporting of the day's sales. In fact turnover is never published for individual stocks nor is the course of sales available. Little wonder, therefore, that charting in the U.K. is not a popular pastime. The actively traded and well reported Wall Street market, on the other hand, is an ideal environment for technical analysis. It is not surprising that the most comprehensive texts available on the subject have been written in the U.S.A. and most of these are based on Wall Street experience.

One could not be blamed for wondering whether an analysis of market action in American stocks would have any application in the Australian market in view of the marked discrepancy in activity between say the Sydney and Wall Street exchanges. Is it realistic to argue that, as a study of stock market behaviour is largely an analysis of human nature, one should expect to find similar patterns of trading occurring in any stock markets?

No doubt there is a rightful place in this discussion for the anthropologist, the economist, the psychologist, the financier, the tax collector and others, but a simple empirical study of the situation is likely to be no less conclusive. The mining market during 1967 is probably as good an opportunity as we have had in Australia to make such an assessment since the 1960 bull market.

With the Australian stock market

virtually dormant from mid 1965 to the end of 1966, the keeping of weekly bar charts was an unrewarding enough task but the maintaining of daily bar charts in this period on all but a small handful of active stocks would have been utterly soul destroying and quite pointless.

The more sensitive charts are, the less they are likely to reveal, in a dull market. Charts drawn up to show daily volume, price range and close are, however, by far the most informative in an active market and in fact some of the important American texts have been devoted to this method. It is in daily charts that price volume relationships can best be discerned, and configurations such as head and shoulders, triangles, rectangles, gaps, one day reversals and so on will show up. Minor trends are also best portrayed on daily charts. Weekly charts, being less sensitive, probably depict intermediate and major trends better and support and resistance levels but are not sensitive enough for the day to day trader.

In the two principal surges in the mining market in 1967, mid April to early August and end September to end November, daily charts paid for their time and trouble and many of the patterns oft read about but seldom seen on any scale in this market began to appear. These were as follows:

## **1. Price-Volume Relationships**

The remarkable increase in turnover in a number of mining stocks, which had previously traded only about twice a week, aroused one's suspicions that the tone of the market had changed. Simultaneously share prices began their ascent. As a general observation on mining stocks in 1967, whenever prices eased back, volume tended to de-

cline, certainly not to pre-boom levels, but to well below the peaks. The Western Australian gold stocks were outstanding examples—North Kalgurli (1912), G.M.K., Great Western, Hill 50 and Great Boulder. Generally speaking climatic volume coincided with minor peaks in price (e.g., N. Kalgurli June 14, July 6; Hill 50 June 19, November 24; Peko November 27). Very low volume often characterised the nadir in minor reactions. At the time of writing, almost all mining and oil stocks are trading on relatively light volume partly due to the Christmas rundown in activity but also because we are probably nearing the end of the general reaction which began on November 29. Traditional charting theory holds that it is bullish when price and volume move together but bearish when they move inversely. Mining charts in 1967 supported this theory.

## **2. Trends and Reactions**

Well defined minor trends were a feature of mining shares during 1967. Reactions as a general rule carried prices back between one-third and two-thirds of the previous rise. A well known example would be Great Boulder which rose from 40 cents to \$4.60 between March and June and then came back to \$1.90, a reaction equivalent to 64% of the rise. The more recent reaction in November again represented a retracement by Great Boulder of around two-thirds of the September to November rise. Stocks which reacted least when the market as a whole was subjected to profit taking tended to be very strong performers when the market revived. This for example showed no weakening in August when most mining stocks

were under pressure nor did Western Mining and North Broken Hill. All three stocks showed above average strength in the rise which followed.

### 3. Continuation Patterns

These occur in an uptrend or downtrend and normally signify that a movement has further to go.

- (a) Flags are downward sloping price patterns which often occur after a very steep rise and are formed on markedly lower turnover. There is an old saying that flags occur at "half mast", or that these formations appear about halfway up a sheer rise. Indeed this did occur with a number of volatile stocks, e.g., Ravensthorpe (June 20 to 30, October 23 to November 4), C.G.M.A. (October 20 to 30), Hampton G.M.A. (October 9 to 13) and G.M.K. (November 3 to 13).
- (b) Gaps occur where the price opens above or below the range of the previous day's trading. They happen most frequently in thinly traded issues undergoing steep rises or falls. Gaps often occur at the beginning of a move but can also take place during and at the very end of an uptrend or downtrend. One positive thing that can be said is that, even though a share price may advance considerably beyond a gap, it will tend to close such a gap on the ensuing reaction. There were many fine examples of gaps which were filled in this manner such as North Kalgurli (June 13), Great Western (April 19), Metals Exploration ctg. (April 21, June 16), Oil Search (October 5). There were few exceptions to the rule in 1967.
- (c) Ascending triangles occur where price fluctuations form a pattern of steadily rising low points but constant high points, in other words flat topped triangles. These normally take shape

within six weeks and turnover should decline through the formation. Ascending triangles are usually followed by an upwards break by at least the extent of their height and are one of the most reliable of chart patterns. As the mining market as a whole rose so quickly, triangles were not common but Metals Exploration ctg. provided probably the best example (April 28 to May 24).

- (d) Symmetrical triangles are isosceles in shape, whereas ascending triangles are right angular. They reflect complete uncertainty with the share price showing decreasing oscillations around a mean level. When the break away from the triangle finally comes it will carry the price by a significant margin, but symmetrical triangles do not usually give any indication of the direction of the break. They are regarded as unreliable chart formations. Great Boulder formed two such triangles before its initial reaction from \$4.60 to \$1.90 and Western Mining between June 20 and July 27 prior to its advance from the \$20 level to \$30. So far symmetrical triangles have been comparatively rare but may be expected to occur in times of pronounced uncertainty.
- (e) Rectangles which are formed by price fluctuations between two horizontal parallel lines have again been rare because of the rapidity of the rises shown by most mining and oil stocks. In the course of its downtrend, Greenbushes formed a rectangle between July 8 and September 28, and when the price broke down from this formation it did so by the height of the rectangle.

### 4. Reversal Formations

These signal the termination of a trend:

- (a) One day reversals occur where

the share price breaks out strongly into high ground after an extensive move but closes near the bottom of its range for the day. One day reversals can also occur in downtrends in which case the exact opposite situation obtains. Such patterns are usually followed by a reaction which carries the price against its previous direction. In 1967 these were only minor reversals rather than major trend changes. Turnover was usually spectacular on such occasions. Fine examples are Great Western (April 24), Metals Exploration ctg. (April 24), Planet Gold (November 24), Uranium Holdings (October 23), and Great Boulder (August 25). The last mentioned formed a one day reversal after the reaction to the original rise to \$4.60. The shares closed the day at the top of their range on solid volume and continued to firm from that point.

- (b) As the mining market as a whole does not appear to have finished its upward trend, there were understandably no major reversal patterns in 1967. Into this category would come the celebrated head and shoulders formation, double tops, descending triangles, symmetrical triangles and rectangles.

In conclusion, the writer is firmly of the opinion that American charting experience is relevant to our market in that most of the formations recognised in a market such as Wall Street also manifest themselves in Sydney, given active trading. Some of the detailed American books on the subject, in giving so many illustrations, would give one the impression that conclusive formations occur in all stocks quoted on Wall Street all the time. This of course is not so. Nor should we expect it to be so here even though we now have an active mining market.