Buy’n Hold

from George Cochrane

Since September 1999

The technical newsletter for sharemarket investors looking for high income with good prospects for capital growth and a goal of reducing the risk of long term capital loss.

January-February 2010: Roars and whimpers

In the 7th century, the book of the new religion of Islam, the Qur’an, advised its followers to find ways of using the stars, saying "*He … ordained the stars for you that you may be guided thereby in the darkness of the land and the sea.*"

This and other exhortations gave rise to the Islamic Golden Age of 8th to the 13th centuries during which Muslims began to develop better instruments for navigation. Many astronomical terms, such as alhidade, (an instrument) and azimuth (an angle), remain Arabic in origin.

In fact, most navigational stars today have Arabic names, such as *Betelgeuse,* meaning the “arm of the central one” i.e. of Orion, and *Murzim*, meaning “the roarer”. The latter is located near the far end of the Local Bubble – an area of low hydrogen density through which the solar system has travelled for a few million years.

The Arabs, and others, also used the stars to prophesy events. It would be useful to have such a prophesy now, as we leave behind a year that started off with a whimper but ended with a roar.

A look back in time tells us that, for the Australian sharemarket, the years ending in zero have averaged minus 1pc over the past century. Of these, five occurred halfway through a US Presidential term (as 2010 will be), four producing a negative or zero result.

Given that we will be seeing higher interest rates and higher taxes, in one form or another, 2010 could well be a year that begins with a roar but ends with a whimper.

All Ords recovers just under half its losses.

After turning up in March 2009, the **All Ordinaries Index** gained 1,792 points to close at 4,883, thus recovering 47pc of the 3,782 points lost between October 2007 and March 2009. In short, there is a lot more ground to be covered!

Technically, we can see a “head and shoulders” base pattern above, with the nadir in March, and “shoulders” in November and June. With the Index now at 4,993, we can assume that the resistance shown by the sideways movement between October and November was roughly allied to the support shown around the 5,000 point level on the way down over July-September in 2008. This gives us a “winged V” pattern with the sloping neckline shown.

In some cases, we find parallel necklines. If we were to connect the support seen in May, 2008, (shown above) we can expect a rise in the Index to around 5,550 before we experience a downturn, possibly in March.

How we performed in 2009

Despite some heavy losses when we sold off the remaining two stocks at the beginning of the year, we ended up with the second best returns for this portfolio in the 11 years since it was created as a separate newsletter. But then it followed the only year which had produced a negative result.

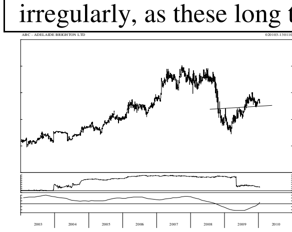
Average return per investment over the years

Date	B'nH	Date	B'nH
1999	9.90%	2005	8.90%
2000	11.80%	2006	20.10%
2001	21.00%	2007	7.80%
2002	10.20%	2008	-19.90%
2003	16.70%	2009	20.20%
2004	19.20%	2010	?

Reviewing our portfolio

Selection, and sale, of stocks depends solely on positive technical indicators, usually support and resistance coupled with signals from On Balance Volume and Coppock indicators.

On purchase, we set a maximum stop loss limit at around 50pc, below which we sell to avoid further losses. As prices rise, the stop is increased, but irregularly, as these long term assets are rarely sold.



Adelaide Brighton *(l)* bounced off the neckline shown in early December, after a three month fall. Hopefully, the price will keep rising, despite current turbulence, but, if it falls through the neckline drawn in, at around $2.48, we may need to reconsider this investment.

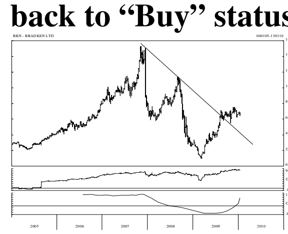
AMP *(r)* has fallen back for the second time from the sloping neckline drawn in. However, it remains a promising base pattern, supported by a Coppock indicator in the lower sub-chart that has turned up below its zero line, its strongest and most positive signal.

ANZ *(l)* fell back from the neckline shown in October, then turned up in December but has been clobbered by market volatility in January. At the current PER of 13.1 and franked yield of 4.6pc, it cannot be said to be an overpriced bank, so I do not expect long term volatility.

Bank of Queensland is still bouncing along the line drawn in above, that looks suspiciously like the neckline of a "head and shoulders" reversal pattern. This can, in a minority of cases, turn out to be a continuation pattern, and I expect this to be one, given that the price has risen from the deep base formed in the first half of 2009. However, if the price falls *through* the line, to say, $10.40, we may consider selling the investment.

BHP *(l)* is still following the uptrend it has been creating since November 2008. However, the price has moved quite far above the trendline and, as we have seen no less than three times, when the price moves too far from the line it retraces back to it. This time, it would involve a fall of 6pc, down to around $40.30.

Bluescope *(r)* moved up to the top parallel line drawn in above, in July last year, and has since been bouncing along this gently downsloping line. The price will hopefully remain above the line, so we will remove the "Hold" status on the stock and restore it as a "Buy". **Switched back to "Buy" status.**

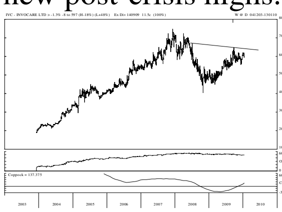


Bradken *(l)* was our top performer last year with a 104pc gain but it looks like we may have to suffer through a retracement now as the price possibly retraces back to the trendline shown.

CBA *(r)* spent three months forming a small triangular consolidation pattern and has now broken up from this, heralding a further rise that should take it well past $60.

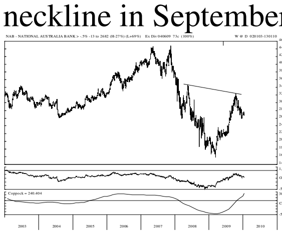
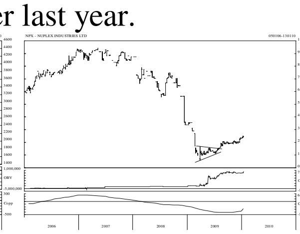

Computershare *(l)* has just broken up through the neckline of the three year V-shaped pattern shown, a line confirmed by the retracement from the line which occurred over the three months October-December last year. This too should harbinger some good short term growth.

Fleetwood *(r)* broke up through the two year neckline, shown above, in October and then spent three months retracing. In the past three weeks, the stock has taken off again, reaching new post-crisis highs.




Invocare *(l)*, the funeral group, is having trouble recovering from the GFC, which came on the heels of four years of steady growth. The price is currently completing a retracement beneath the neckline shown above and should, in the absence of immortality, recover soon.

Metcash *(r)* suffered its initial sell-off in mid-2007 and subsequently underwent a relatively small fall through the GFC. It has now spent 2½ years forming the saucer-shaped pattern shown after initially retracing back from the neckline in September last year.

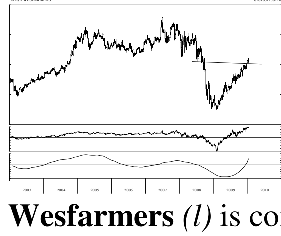
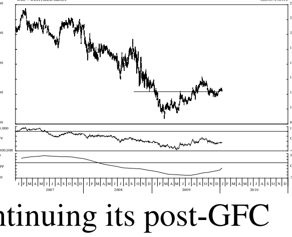



NAB's *(l)* recovery has been stalled by an unusually deep retracement since mid-October, with only a minimal recovery in December. NAB is considering its investments in the UK, and is also involved in a $4.6bn bid for AXA, and these may be unsettling the market temporarily.

Nuplex *(r)* is a NZ manufacturer of resins for coatings, adhesives and composites etc. The stock was selected as an "excitement stock" after it became patently oversold through early 2009. The stock continues to climb and returned some 37pc in the last four months of 2009 after we bought in. Now at $2.45, I expect it to continue to rise to "close the gap" formed when it gapped down $2 to $3.50 in late 2008, which implies a target of $5.50. **Retained.**


Onesteel *(l)* appears to have overcome earlier fears of a glut of steel on world markets. The shareprice, which had been falling back since September along the neckline seen above, has now risen through it. This too should be the precursor to a period of short term growth so we will remove the "Hold" on the stock. **Switched back to "Buy" status.**

Santos *(r)* is still selling on a low PER of 6.1 that marks it to be out of favour with the market. There has been an unpleasant 12pc slide since September and only a minimal recovery in December-January. Fears may be based on the company's declining resource base and its involvement in the PNG LNG project given that too many PNG projects seem to run into production problems. Technically, the Coppock is turning up below its zero line, promising a recovery. Its low yield of 2.9pc is at odds with the company's historical position of being a high yielding utility that also offered some exploration potential. We may need to eventually sell.

Wesfarmers *(l)* is continuing its post-GFC recovery in a largely unbroken uptrend. This has just gapped above the resistance lie drawn in above indicating a possible upcoming short term surge in price.

Westfield *(r)* is showing a weak recovery, hampered by the global problems still affecting retailers. However, it has so far maintained its yield at a satisfactory 7.9pc, albeit unfranked.

Westpac *(l)* recovered nearly all of its lost ground through 2009 before falling back in October. The underpriced banking sector was eagerly grabbed as the recovery got underway but, overall, became a touch overpriced. With a PER of 20.1, this bank is now the most highly priced. I suspect we will encounter a quiet period for bank shareprices through 2010 while profits catch up with valuations.

Woodside *(r)* has spent three months retracing back to the line it rose through back in August. The price has now broken up from this short term downtrend and will hopefully continue its recovery although the withdrawal of Petrochina as a customer of the Browse project may slow this down a little.

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Valuing the portfolio as at closing prices, Thursday, January 14, 2010

Assume we invest $1,000 in each

	All B(uy) Unless (H)old	Initial Price	Date Bought	*Return in 2007*	*Return in 2008*	*Return in 2009*	Cost/At 31.12.09	Stop Loss	Price** 14.1.10	Add Div	Div Paid	Change in 2010	PER	Frnkd Yield
ABC	Adelaide Bri	$2.45	7.8.09	-	-	*14.5%*	$2.75	$1.22	$2.62			-4.7%	12.8	5.2%
AMP	AMP	$5.58	31.7.09	-	-	*23.8%*	$6.77	$2.99	$6.44			-4.9%	21.8	4.7%P
ANZ	ANZ	$15.71	29.4.09	-	-	*48.6%*	$22.88	$7.86	$22.40			-2.1%	13.1	4.6%
BOQ	Bk of Qld	$9.60	15.7.09	-	-	*22.6%*	$11.51	$4.80	$11.37			-1.2%	15.3	4.5%
BHP	BHP	$36.50	9.6.09	-	-	*19.5%*	$43.12	$18.25	$43.87			1.7%	34.2	2.6%
BKN	Bluescope	$2.50	9.6.09	-	-	*24.4%*	$3.11	$1.25	$3.09			-0.6%	-	1.5%U
BSL	Bradken	$3.40	17.4.09	-	-	*104.4%*	$6.82	$1.70	$6.59			-3.4%	12.7	3.5%
CBA	CBA	$36.99	9.6.09	-	-	*51.4%*	$54.85	$18.50	$56.79			3.5%	17.2	4.0%
CPU	Compushare	$10.50	10.9.09	-	-	*9.0%*	$11.45	$5.25	$11.81			3.1%	20.6	1.9%
FWD	Fleetwood	$8.01	14.10.09	-	-	*-0.2%*	$7.99	$4.01	$8.80			10.1%	13.0	7.4%
IVC	Invocare	$5.95	9.9.09	-	-	*5.5%*	$6.16	$2.99	$5.96			-3.2%	20.2	4.1%
MTS	Metcash	$4.41	10.9.09	-	-	*1.4%*	$4.47	$2.20	$4.39			-1.8%	14.8	5.6%
NAB	NAB	$23.38	15.7.09	-	-	*20.3%*	$27.40	$12.00	$27.05			-1.3%	10.4	5.4%
OST	Onesteel	$3.01	23.7.09	-	-	*12.6%*	$3.35	$1.59	$3.56			6.3%	16.1	2.8%U
STO	Santos*	$13.20	14.5.09	-	-	*8.4%*	$14.09	$6.60	$13.95			-1.0%	6.1	2.9%
WES	Wesfarmers	$24.01	27.7.09	-	-	*32.7%*	$31.27	$12.99	$31.02			-0.8%	19.7	3.5%
WBC	Westfield	$12.37	6.8.09	-	-	*5.2%*	$12.54	$6.19	$12.56			0.2%	-	7.9%U
WDC	Westpac	$19.35	9.6.09	-	-	*33.9%*	$25.30	$9.70	$25.38			0.3%	20.1	4.6%
WPL	Woodside	$43.05	7.5.09	-	-	*10.9%*	$47.20	$21.53	$48.42			2.6%	20.5	2.2%
		Sales/Takeovers				*2/-25%*	No of sales/tkvers in 2010			0	for a total	0.0%		
		Average return		*7.8%*	*-19.9%*	*20.2%*	Average return in B'nH since 1/1/10					0.2%		

Excitement stock

		Initial Price	Date Bought	Cost/At 31.12.09	Price** 14.1.10	Change in 2010	PER	Frnkd Yield
NPX	Nuplex	$1.72	11.8.09	$2.35	$2.49	6.0%	11.1	1.4%

* Includes Santos Rights issue May 09 2:5 @ $12.50. ** Prices were updated before mailing, after the newsletter was written.

Buy orders placed. (all stop loss limits at 50%) AGL AGK >$15.15; Gunns GNS > $1.35;

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