Portfolio management: keep an eye on that moving average

TECHNICAL ANALYSIS
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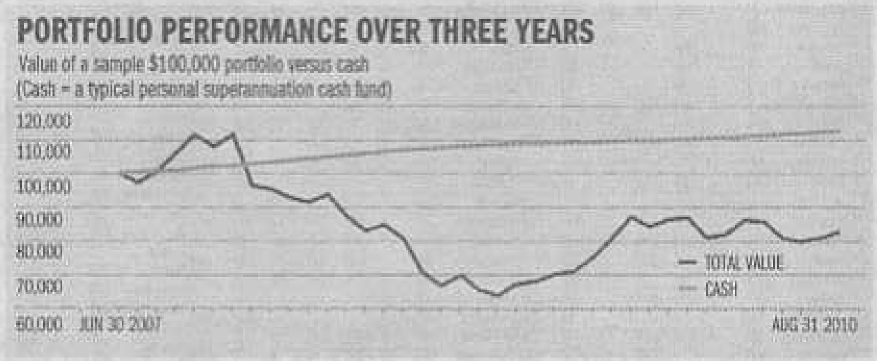
TECHNICAL analysis is part of the portfolio armoury of the investor in turning a profit and in protecting capital. This week a simple chart put together by Robert Brain, a board member of the Australian Technical Analysts Association, demonstrates the importance of effective portfolio management during the dramatic times experienced on the market over the past three years.

Brain takes a notional portfolio of 10 stocks held at June 30, 2007, and valued at $100,000, and charts their progress over the subsequent three years. The portfolio consists of AMP, ANZ, Commonwealth Bank, National Australia Bank, Newcrest Mining, Suncorp, Westfield Group, Wesfarmers, Woolworths and Woodside held in about equal dollar-value parcels. They are shares favoured by many private investors.

The shares took a big dive with the financial crisis, which is no surprise, and fell to a low of about $64,000 in early 2009. They had recovered to a value of $82,880 by the end of August. Holding the shares over that time would have yielded dividends of another $10,896, Brain says, giving a total value to the investor of $93,776. But an investment of



$100,000 in a typical cash fund as offered by superannuation funds and cash management trusts would have grown to $112, 560 in the same period.

For those wanting to look at how technical analysis would have performed in preserving the share investor's capital, Brain assumes the investor used a basic technical analysis tool, the 30-week simple moving average (SMA) of the share price. Our mythical and smart investor would simply have checked the price of each stock at the end of every week along with the SMA for that stock. Whenever the SMA was lower than it was the previous week, the investor sold the stock. Some stocks in the portfolio, like the banks, fell in value early in 2008, and would have been sold fairly quickly as the crisis emerged. But Woodside, for example, held on for some time.

By selling the shares using that signal and putting the money into the cash fund, Brain estimates the wily investor would still have a cash investment of at least $106,000 now. Of course, there are factors like capital gains tax to consider but Brain says the end results show that investors should consider taking a sensible and active approach to their investments. He stresses that the SMA is just one of many analysis tools available to investors.