

2014 Market Outlook



Aussie Markets Update using "4 Windows"

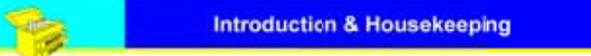
2014 Market outlook

Analysis using contemporary technical analysis tools and studying the big picture

One of two presentations to the Melbourne ATAA meeting January 2014

Robert Brain

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Introduction & Housekeeping

Santa Rally & 2014 Outlook

The Melbourne ATAA presentation covered two topics, with the slides for each topic available in two separate files:

- **The truth about the *Santa Rally*** — is it really true? or is it fiction?
- **Australian market outlook for 2014** using key technical analysis tools, analysing the All Ordinaries index (utilising key details from Robert's "4 Windows" approach).



Introduction & Housekeeping

Underlying premise

The price charts of stocks and the indexes summarise the underlying opinions and emotions of market participants.

- Therefore, every chart can tell a story
- It is very useful to be able to understand the stories in the price charts.

Every chart tells a story. Understand the stories in the charts.



2014
Market
Outlook
(with a difference)

My views of the months ahead

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Market outlook?

January 2014 headlines*

- Equities — Mixed signals for year ahead
- Resources — Big miners offer safest bet
- Retail — Success depends on going the extra mile
- Healthcare — Flourishing but vulnerable to cuts
- IT and telcos — Buy ahead of cyclical uptick
- Banks — Big four confident — but hurdles ahead
- Real estate — Rates rebound a danger for property
- Agriculture — Asian demand fuels growth
- Infrastructure — Little light at the end of the tunnel
- Energy — Crunch year as projects take shape

* Source: AFR, Weekend edition, 3-5 January 2014, p22

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Market outlook?

More recent headlines

- China — slowdown
- US equities — over-valued
- US market — overdue for correction
- January Barometer —
"As goes January, so goes the year".
(yet another Wall Street cliché?)

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Market outlook?

Market "outlook"

Question: Are your views about the year ahead influenced by:

- News that the economy and market will roar?
- Comments that the Aussie dollar might fall 10%?
- Suggestions the price of oil will sky rocket?
- Speculation that gold will take off (or plunge)?
- Any analyst who predicts the share market index for end of 2014?

Does this change your investing approach?

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Market outlook?

Do forecasts make a difference?

- A long-term buy-and-hold investor might be swayed.
- A shorter-term investor/trader?
 - Might bear it in mind
 - Might watch out and take care
 - Might plan to be very responsive to unforeseen events.

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Market outlook?

Does it influence you?

So, might any of this change your investing or trading style or approach for the year ahead?



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 **Market outlook?**

Possible strategies for 2014

- Invest in an IPO ? (mostly dangerous!)
- Value investing ? (guess-work!)
- Sector specific ? (guess-work!)
- Careful, selective stock-picking ? (clever!)

Does it matter what the rest of the market, or other markets, are doing?

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**Market history
is it useful?**

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 **Market history**

Is it useful to study history?

Two broad opinions:

A) Tomorrow's share prices are not influenced by yesterday's share prices, so company **share price** performance over recent years does not help us invest in the markets today — so ignore history.

B) The economy (and sectors) move through cycles, and past human behaviour and response to the cyclical moves are recorded in the price charts — study market history.

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Market history

Tug of war...

Remember, the markets are a tug of war:-

- buyers versus sellers;
- an excess of one results in price movements, and possibly over-bought or over-sold conditions;
- reflected in the charts as swings up/down;
- emotions and opinions contribute to extremes.

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Market history

In April 2010...

Noticed that the bear market of 2007-2009 looked similar to the bear market of 1989-1991...

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Market history

Also note:

- After the 1987 crash, the Aussie market took almost 10 years to make new sustained highs.
- Along the way → 3 bears + 2 corrections!!

(see chart on next slide)

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Market history

Conclusions?

- After the 1987 crash, the Aussie market took almost 10 years to make new sustained highs.
- Along the way → 3 bears + 2 corrections!!
- **Whatever the market has done before, it can do again.**
- Don't be surprised if we see a correction or a bear market every 3 years or so (on average).

See more details:
www.robertbrain.com/bearmarkets

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Market history

So: **Remember the elephants...**

- It can be very useful to check out the bigger picture...
- Understand what has happened "recently"
- And where the price has come from.

Remember:
The market is like an elephant... (and if we just stand in the way we might get trampled).



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Market outlook?

My conclusion (from history)

- The market could do anything at short notice.
- Fundamentals, and "conventional" investing styles **might** give nice results; BUT it leaves too much to chance and is too hit and miss
- Follow the charts week to week
- Be nimble, and think "shorter-term"
- Be opportunistic.

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Market outlook?

Market outlook?

- So, the market outlook for 2014?...
- How to arrive at a reliable result?...

Here is my approach...

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 **Market outlook?**

Nimble Short Term Investing

- Don't be surprised if a bear sneaks up (or a correction), so have an exit strategy ready;
- Be vigilant (monitor positions at least weekly);
- Do NOT anticipate the market, just respond to the market action
- Difficult to look more than about 3 months ahead.

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 **Market outlook?**

Guidelines...

- **Look for stocks in a healthy "rising trend"** (definition of this is arguable and there are many variations);
- **Ignore sector analysis** because a rising tide lifts all boats ← 'urphy!
a rising tide lifts **many** boats (not **all** boats)!
and
a falling tide lowers **many** boats (not **all** boats)!

(eg. Newcrest over two periods during the GFC — in early 2008, and in late 2008)

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 **Market outlook?**

Today...

- Six+ years since market peak (late 2007)
- Some (Aussie) banks now increasing fixed term interest rates.
- Housing prices seem to have bottomed.
- Recovery in economy becoming apparent.
- Credit becoming more widely available.

Remember: The market leads the economy by about 3 to 5 months.

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2014 Market Outlook

Market outlook?

Major world markets

It is useful to look at the performance of the index in other major markets around the world.
Here are 12 key markets at www.stockcharts.com



(see larger version next slide...)

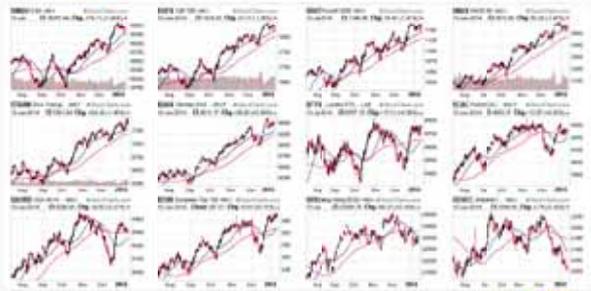
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Market outlook?

Major world markets

Card@Glance: SINDU, \$SPA, \$RUT, \$NDX, \$TRAN, \$DAX, \$FTSE \$CAC, \$AORD, \$EUR, \$HIX, \$SSEC

13 Jan 2014



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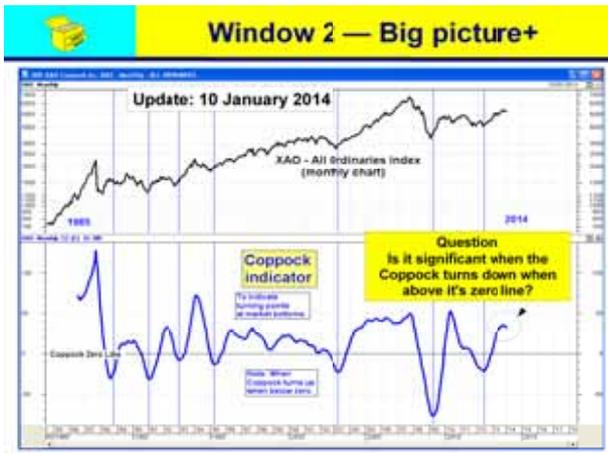


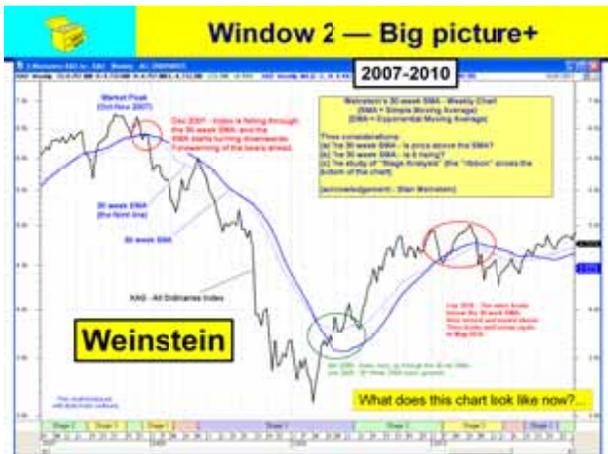
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Window 2 — Big picture+

Who is Weinstein?

Secrets for Profiting in Bull and Bear Markets
 Stan Weinstein, 1988
 About the best book for novices in TA.
 And he won't write another.

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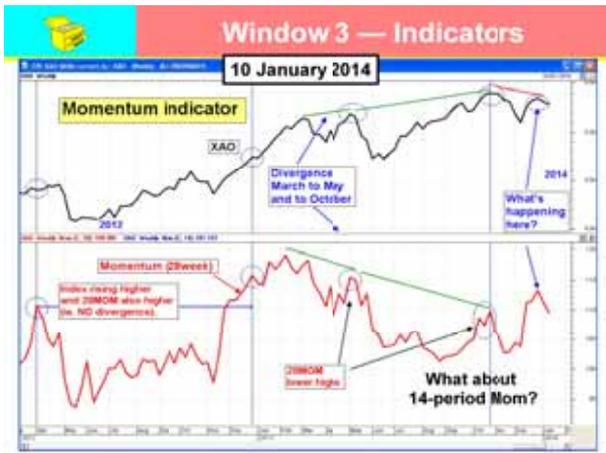
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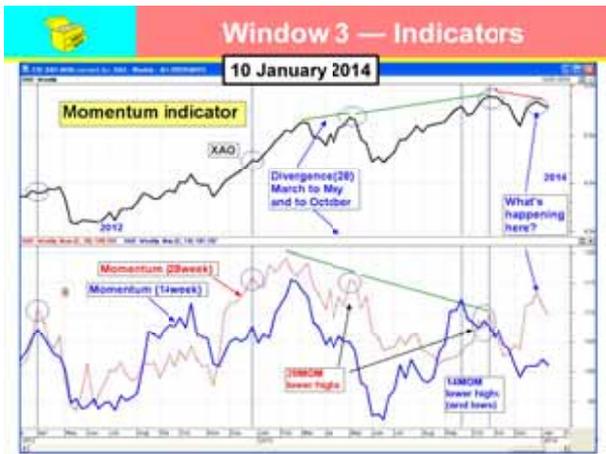






2014 Market Outlook







2014 Market Outlook

Window 3 — Indicators

Momentum indicator

Measures the change in price over a specified time period.

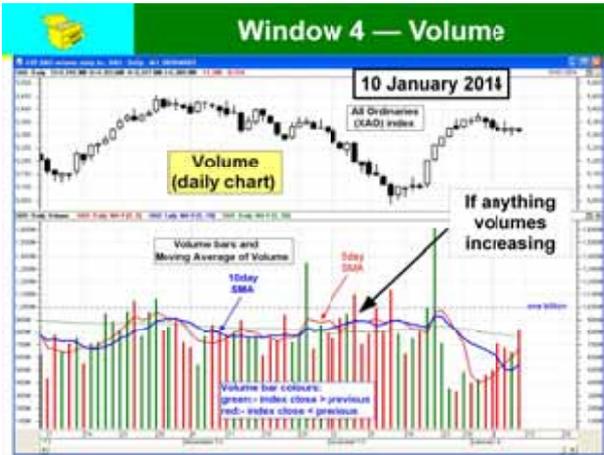
Look for divergence **TIP!**
(also relevant on other indicators).

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2014 Market Outlook



Summary & Wrap up

2014 — What do I think?

- Can't provide prediction or forecast!
- Won't be surprised if a bear sneaks up (or a correction);
- Do have exit strategies ready;
- Be vigilant (monitor positions at least weekly);
- Will NOT anticipate the market;
- Respond to the market action;
- Looking for individual opportunities;
- Difficult to look more than about 3 months ahead.

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Summary & Wrap up

Key points

- Always consider **big picture** because the **market is like an elephant...**
- **Daily close** price is very important
- Technical analysis **indicators** can be useful
- Look for **divergence** on indicators
- **Volume** is important.

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