

Welcome to TheMarket.co.za Weekly Analysis Report

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By Colin Abrams

Classic Trading Rule:

"Take advantage of very loss to improve your knowledge of market action."

INDICES SHORT-TERM CONSOLIDATION MODE

Introduction:

We're seeing a breather taking place in the JSE All Share index as well as the US stock indices. There is certainly no panic going on and I'm viewing this consolidation as a pause before they head higher again (locally and the US). The JSE All Share index is forming what may well turn into a short-term head and shoulder continuation pattern, which is very bullish. The JSE resources 10 index continues to move higher though and that's where the action is still. Elsewhere, the weak rand is creating more havoc for retailers and banks, but the rand may be nearing the end of its run of weakness.

The S&P 500 index chart shows it in a buyable pullback. The **JSE All Share index** chart is consolidating sideways (as opposed to down), which is a sign of underlying strength. A chart of the **JSE resi 10 index**, while still very strong, is showing some warning signs to be aware of. Then the **Gold bugs index (HUI)**, one of the main overseas gold stock indices, is forging higher and looks bullish (it's closely correlated to the **JSE gold index**). The stock charts shown are **Glencore** (grinding ever higher), **Kumba-IO** (second upside target in sight), and **Sasol** (short-term positive).

The small-cap chart is **Sirius**, which has a significantly higher target.

Overall, continue to focus on where the profits are and that's in the resources sector. Some decent profits on the short side though have been available in retail stocks (in particular), and that is the best of both worlds, to buy the strong stocks, and sell short the very weak ones. Right now though the main indices are in consolidation mode until the next leg higher.

Executive Summary:

- **S&P 500 Inx (chart 1):** Buy again off line 3 or line 1
- **All Share Inx: (chart 2):** Buy again closer to line 4 or line 2. Med-term hold
- **Resi 10 Inx: (chart 3):** Traders lock in partial profits into strength
- **Gold bugs Inx (chart 4):** Gold stocks are a buy, particularly US listed gold stocks right now
- **Glencore (chart 5):** Traders buy again at current levels
- **Kumba-IO (chart 6):** Hold to the higher target
- **Sasol (chart 7):** Buy again at current levels
- **Sirius (chart 8):** Buy half now and the other half on a short-term pullback to R11.80 level
- **Leading Stocks (3-mths):** **Top 40** – Angloplat, BATS, Anglo, Gfields, Capitec, Anggold, Richemont.
Resources 10 – Implats, Angloplat, Exxaro, Anglo, Gfields.
- **Shortable stocks/instruments: 26**

1. MARKET CHARTS

S&P 500 INDEX – Buy this pullback

Recommendation: BUY LOWER DOWN

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

Strategy: Buy again off line 3 or line 1.

Chart 1. (Daily)

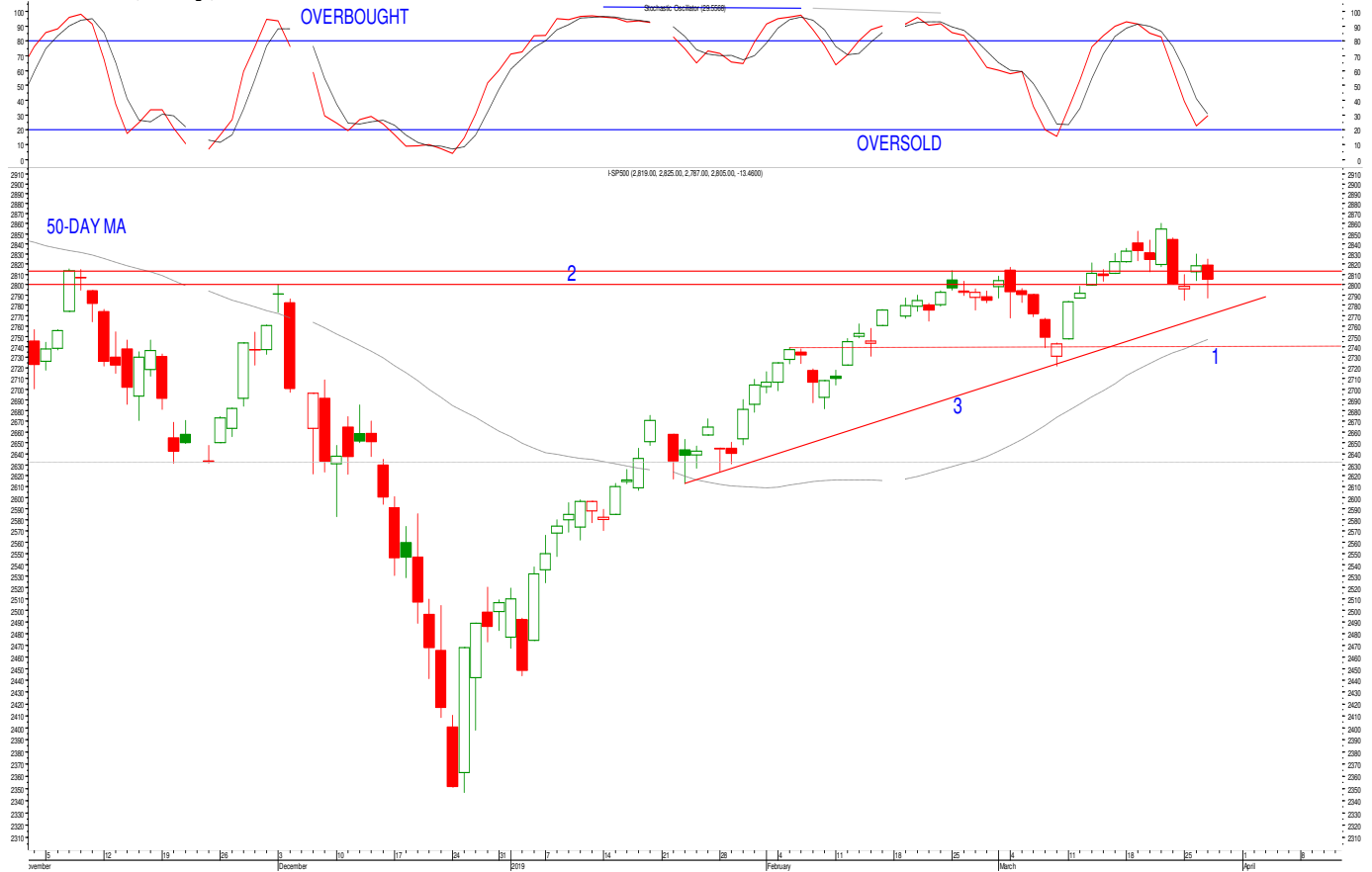


Chart Setup: A sharp drop from its 2860 target zone is likely to see more pullback before it moves up again. I expect this correction to be temporary.

- Its Stochastic will be oversold in a couple of days so the price can drop a bit more.

Strategy Details: Buy a reversal day/candle up off line 3 (2774 level) or line 1 (2740) – wherever it occurs first. Line 1 is preferable for a risk/reward perspective.

Target: Up to 2875. In the meantime, pullback potential to 2740.

Stop-loss: A close below 2720 if buying off line 1. Or below 2765 if buy a reversal off line 3.

Recommendation: BUY ON WEAKNESS

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

Strategy: Buy again closer to line 4 or line 2. Med-term hold.

Chart 2. (Daily)

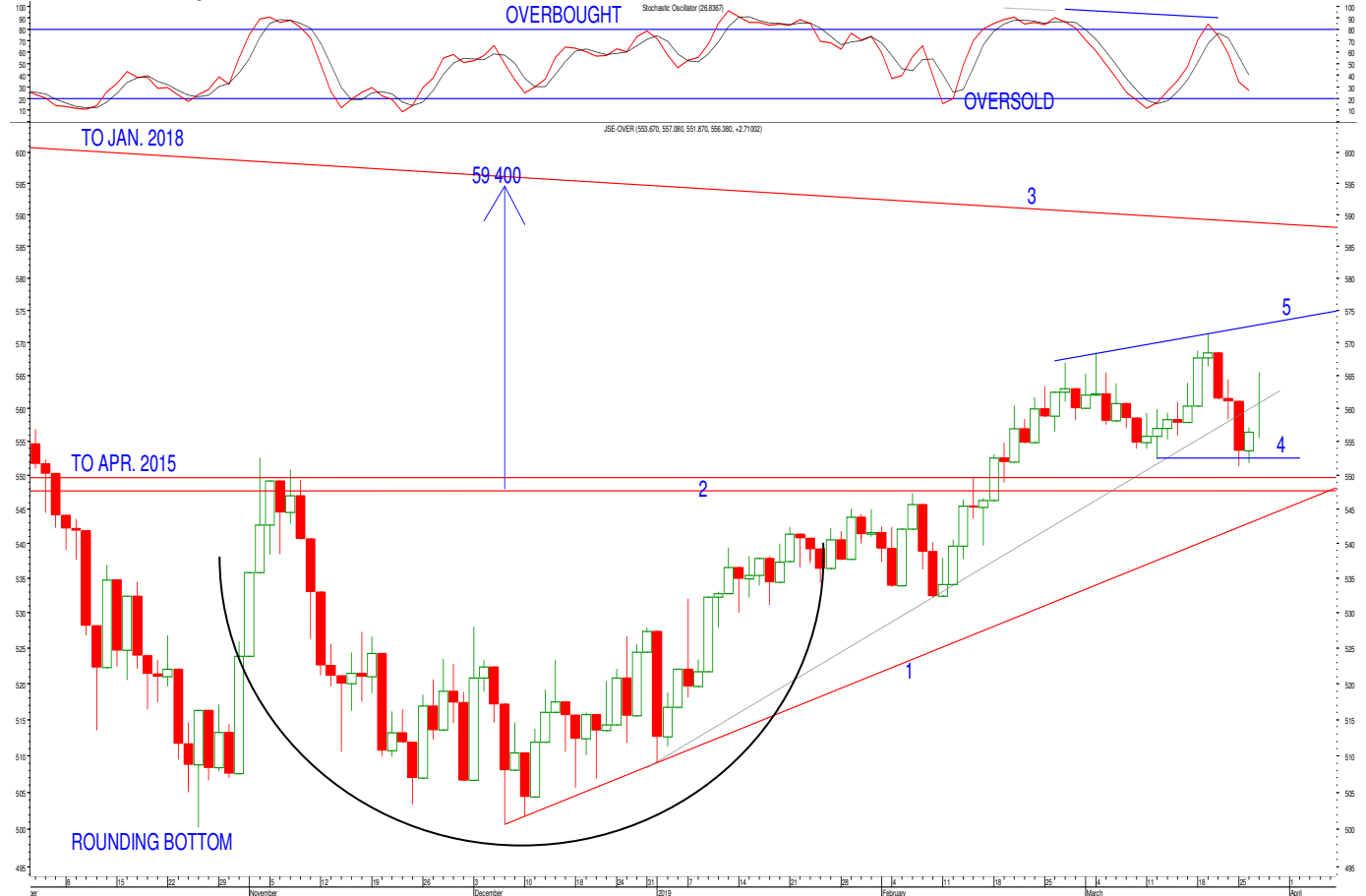


Chart Setup: Price is consolidating between lines 4 and 5 in a broadening formation. The Stochastic is not oversold yet, and the index is still vulnerable in short-term.

Strategy Details: The general strategy is to buy on weakness still, e.g. closer to line 4 support at 55 150. Or, at the bottom line 2 at 54 750.

Target: Short-term upside to line 5 at 57 300. Main target still 59 400, based on its rounding bottom. With resistance at line 3 at the 58 800 level.

- Downside support is line 4 at 55 150. Then line/s 2 (55 000-54 750). Important support thereafter at line 1 (54 450 level).

Stop-loss: A close below line 1. (Line 1 is at 54 380 on Weds 27th and rising by 60 pts per trading day thereafter).

JSE RESOURCES 10 INDEX – Some early warning signs

Recommendation: HOLD/TIGHTEN STOPS

Current Trend: Up on all main timeframes.

Strategy: Traders lock in partial profits into strength.

Chart 3. (Daily)



Chart Setup: The resi 10 index has reached its minimum target from an inverse H/Sh. A large negative divergence on its Stochastic is warning of a correction to come.

Strategy Details: Short-term traders only, lock in partial profits into strength. Raise stops to below line 3.

Target: Minimum target reached but potential to line 2 still at 49 000.

Stop-loss: A close below line 3. (Line 3 is at 45 370 on Weds 27th and rising by 110 points per trading day thereafter). Or a close below 45 660 if that is easier to follow.

GOLD BUGS INDEX (HUI) AND JSE GOLD INDEX – Moving higher

Recommendation: BUY

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

Strategy: Gold stocks are a buy, particularly US listed gold stocks right now.

Chart 4. (Daily)

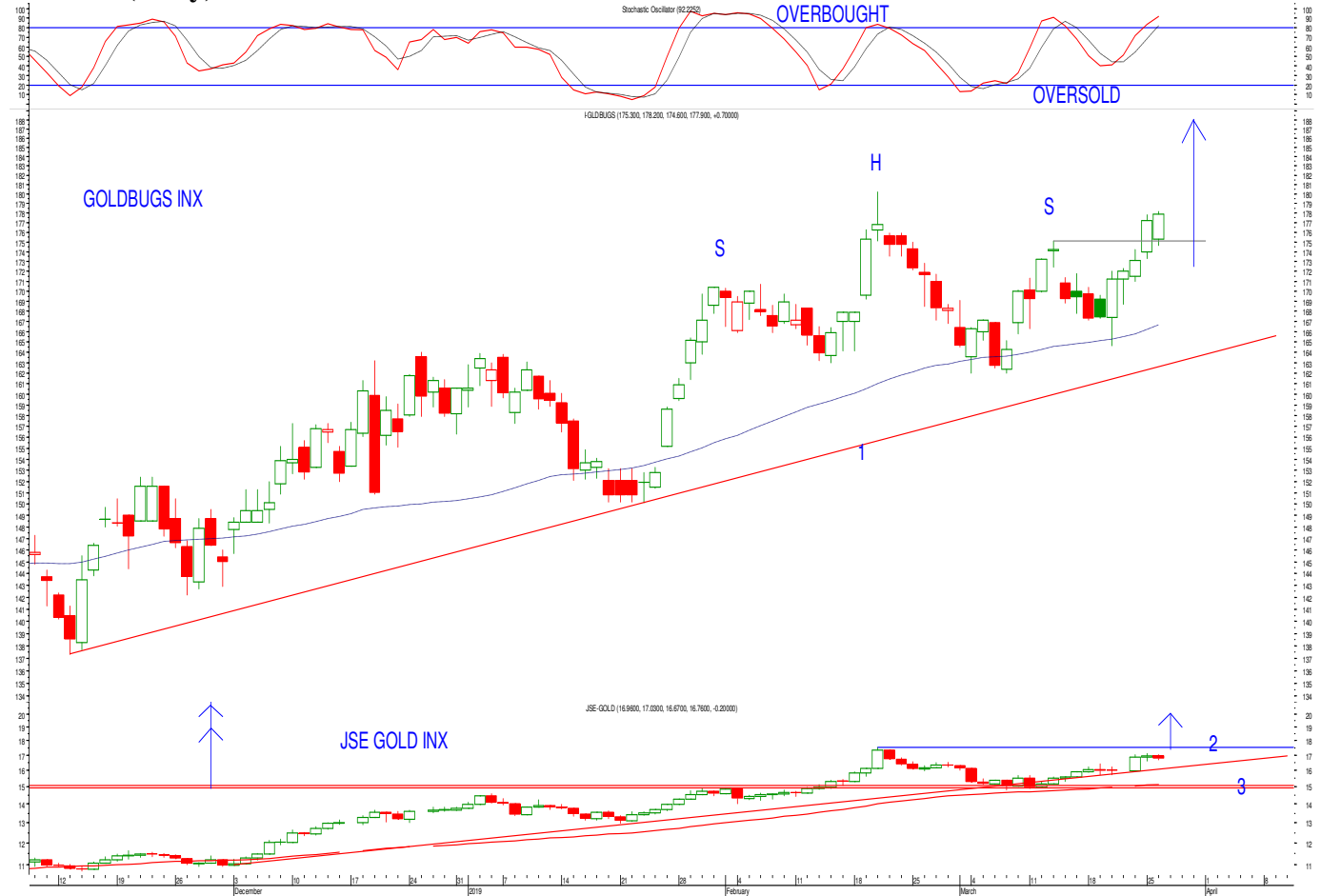


Chart Setup: Gold bugs (HUI) is breaking out of a head and shoulders continuation pattern (bullish). (Middle window).

Strategy Details: This is a short-term buy signal for international gold stocks. (Note: Look at Barrick Gold listed in NY, which is threatening a very important med-term breakout).

Target: 188.00 for the HUI (currently 176.70). On the JSE gold index, a close above line 2 (at 1752) will target 2010 short-term. Longer-term target is 2400.

Stop-loss: A close below 167.00 on HUI. (Line 1 support is at 163.00). On JSE gold index it's a close below 1480 (line 3).

GLENCORE (GLN) – To work its way higher

Recommendation: BUY

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

Strategy: Traders buy again at current levels.

Chart 5. (Daily)



Chart Setup: Glencore is forming a large rounding bottom and is heading to line/s 3 at the R64 level.

- Its Stochastic is not oversold and that indicates it can pull back a bit (or move sideways) in the coming days.

Strategy Details: Buy it again at current levels.

Target: Up to a resistance zone at “3” (R63.70-R64.75).

Stop-loss: A close below line 2 (R58.00).

KUMBA-IO (KIO) – Next target in sight

Recommendation: HOLD

Current Trend: Up on all main timeframes.

Strategy: Hold to the higher target.

Chart 6. (Daily)



Chart Setup: Kumba reached its first target of R410 today. There is a further target to R435 (T2).

- Its short-term Stochastic can still move higher but is giving a negative divergence, implying a correction is not far off.

Strategy Details: Having reached T1 (recommendation given in the Notes section in recent weeks), leave some on for R435 (T2).

Target: Next target (T2) is R435, based on its current short-term breakout (a 'cup and handle').

Stop-loss: Below R397.

SASOL (SOL) – Cautiously higher

Recommendation: BUY

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

Strategy: Buy again at current levels.

Chart 7. (Daily)



Chart Setup: Sasol is working its way higher to a target from an inverse head and shoulders. This entire pattern over the past five months might also be a large rounding bottom.

Strategy Details: Given the pullback of recent days, go long again at current levels.

Target: Up to R468 based on the inverse H/Sh. (Note, there is a price gap at R460-465 that is closest resistance that it needs to break). Further potential to line 3 at R480.

Stop-loss: A close below line 1. (Line 1 is at R429.50 for Thurs. 28th and rising by R1.50 per day thereafter). From 464 raise stop to entry price.

2. SMALL-CAP. CHART

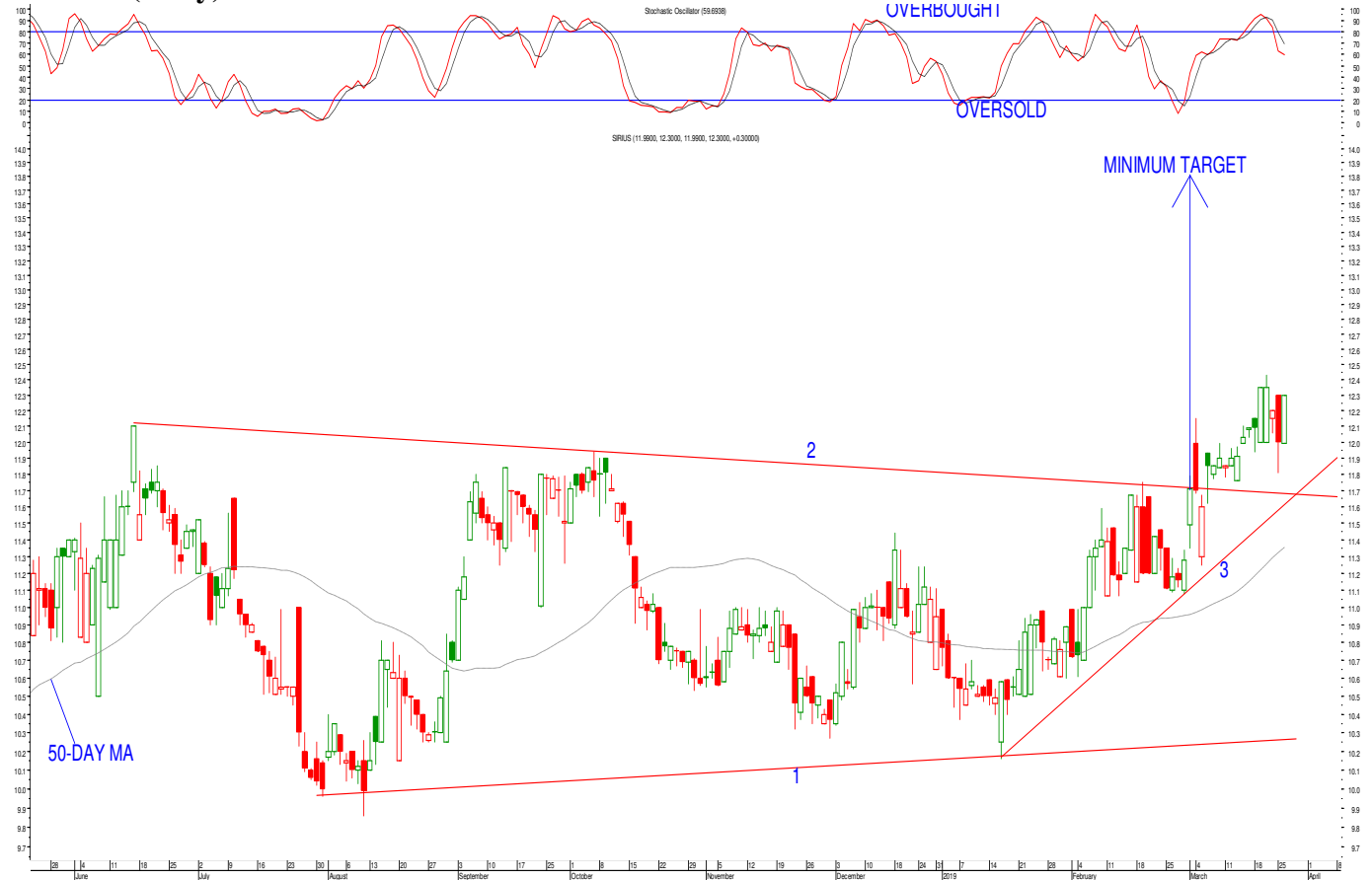
SIRIUS (SRE) – Higher breakout target

Broad Recommendation: BUY NOW/ADD TO IT ON A PULLBACK

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

Strategy: Buy half now and the other half on a short-term pullback to R11.80 level

Chart 8. (Daily)



Sector: Real Estate Holdings

Price: R12.40

Chart Setup: Sirius has a higher target from a large symmetrical triangle. Its short-term Stochastic is overbought so a pullback is possible at any time, but expect it to be temporary.

Strategy Details: Buy half now (in case it doesn't pull back), and buy the other half on a pullback to the R11.80 level.

Target: Up to R13.80 as a minimum target i.e. the height of triangle 1-2 projected up.

Stop-loss: A close below line 3. (Line 3 is at R11.63 on Weds 27th and its rising by 3c per trading day thereafter). From R13.00 bring stop up to your average entry price.

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

- ISA, Mixtel, Tharisa.

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, Gfields, Capitec, Anggold, Richemont.

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

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. Sibanye
3. Lonmin
4. Northam
5. Angloplat

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

- **Woolies:** hold short, but with caution as its doing better than some other retail stocks in recent days. Lower stop to an intraday break above 25.70. (Personally I'd be inclined to exit half now for a breakeven). Once it trades below 43.30 lower stop to an intraday break of its prior one day high. Take half profits at 43.10. And the rest at 42.70 if reached.
- **Mr-Price:** reached and exceeded its shorting target. It did give a bullish reversal candle today (Weds) so there's a decent chance of a rally to come.
- **MondiPlc:** its breakout did not follow through and it unfortunately triggered its short-term stop. Its pointing down to 300/298 now based on a H/Sh pattern.

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):

- **Assore, BATS, Sanlam, Bidvest, AB-Inbev, Barworld, InvPlc, Sappi.**
- **AB-Inbev:** short-term stop triggered for a breakeven trade but I still like its chart and would re-enter long. The target is still 1320. It's a med-term chart pattern (inv H/Sh) so it's a med-term trade as well. Give the stop more room and place it as a close below 1115.
- **Anggold:** it looks to be forming a bull flag in the past two days. Get back in again, for a target of 222.87 to last months high. Stop a close below 197.30 short-term.
- **Angloplat:** got to its short-term upside target range given last week. Its pulling back now so look to get back in on a bit more weakness e.g. at the 770 level (on a reversal day/candle up). Next main target is 946 pull there will be pullbacks along the way. Stop for short-term traders will be a close below 761.
- **Anglo:** is testing short-term resistance at 384. A close above it will be a buy signal and will target 400 in the short-term. Main target still 410. Stop a close below 364.90 (short-term support).
- **ARM:** reached the partial profit taking zone. Take the rest at 173/174. Stop below 1651 for the very short-term.
- **Aspen:** it remains a short, particularly on any one or two day bounce. No specific downside target but 89, and then 85 is very doable.
- **Assore:** hold. A close above 377 that it's testing right now, will target 412 for partial profit taking (and a new buy signal if not in). Main target 510 med-term. Stop a close below 350.
- **Barworld:** it's holding short-term support well and is a buy at current levels. Stop tight as a close below 123.40. Target 133.80-135.
- **BATS:** is moving up from a bull flag and is buyable at current levels. I have a med-term target of 687 but no clear short-term target. Lock in partial profits at 633 where there is some resistance. Stop a close below 577.
- **Bidvest:** it hasn't been performing well but its near support of 191.30 and giving a positive divergence on its stochastic, so a rally is probably not far off. A reversal day up from 191.30 is a buy signal. Stop a close below that level. Take partial profits at 206.40. And the rest at 210.
- **BHP:** raise a short stop to a prior one day low for short-term traders only. No harm in locking in partial profits now as it's had a good run in recent days. Main target though 352. It's giving some big divergences on its stochastic so at some point it's going to give a sizeable correction (albeit temporary).
- **Capitec:** hold. Place the stop as a close below 1240 (one can also buy a reversal day up from 1240 if that happens). Lock in partial profits at 1360 on the next rally.
- **Clicks:** If not in, buy a reversal day up off important support at/near 172.50 level, which it's heading towards now. Stop currently a close below 172. Its med-term range bound. It's a hold if in, to target resistance at 200. Until then lock in some trading profits at 197.
- **Dischem:** it's now broken out of its recent sideways range, to the downside. Re-enter short-term for a target to 22.85. Stop a close above 25.30.
- **Discovery:** got to its next downside target and I must say continues to look very weak. A large symmetrical triangle is pointing down to 118 as a target. We'll see if it gets there or not, but for now it's still a short on bounces. The next reversal down will close shortable, but with caution because it is very oversold. Stop above the reversal day's high.

- **Firstrnd:** prior two day high triggered for a breakeven trade, and it has solid support at 59.30. A reversal week up from there is a buy. For now it still has to do some work to break its downtrend. The first is at least a close above 63.70.
- **Glencore:** see Chart 5.
- **Imperial:** is a short on bounces. Take partial profits at 55.50. More at 53.50 if reached.
- **Implats:** it's now giving some sort of breather finally. We advised to take some profits last week but look to buy in again (the part sold) clear to 61.50/61 ideally. Main upside target still 88.
- **InvPlc:** sell short next reversal day/candle down. Target to 79.20 based on a H/Sh. Stop above there reversal days high.
- **Kumba-IO:** see Chart 6.
- **MondiPlc:** see update above.
- **Mr-Price:** see update above.
- **MTN-Group:** massive reversal candle up on Tues., but hasn't broken that days high to buy yet. Today (Weds) it dropped again quite sharply. Perhaps the woes are not in fact over? Right now leave it alone until more clarity comes in.
- **Naspers-N:** prior one day low locked in profits but it reached its 3330 target Weds. It's still best kept as a med-term hold and not to tamper with it too much. Traders get back in. Targets are 3465-3500 for some profit taking, ultimately to 3645.
- **OMutual:** has moved sideways over the past week, and while my bias is marginally to the downside I would exit this short trade as its been holding up quite well over the past week. Might be pausing before another leg up off its March low.
- **PPC:** hold short, target to 4.20. It's getting near there right now so lock in partial profits on shorts. Stop a close above 4.88.
- **PSG:** hold. It's forming either a H/Sh top or a H/Sh continuation pattern (bullish). It's a hold for now; stop a close below 242. A close above 260 will be very bullish, to target 278 which is the target we've had for some time.
- **Richemont:** hold, with caution. Stop a close below 101.15. A close above 106.70 will target 111.50 to take profits. A breakout above there, if it happens, will be very bullish.
- **Sanlam:** it's testing some important med-term support at 72.00-71.40. Hold from recent buy recommendation. Stop a close below 71.40. If not in, rather wait for a reversal week up to buy. That will target 79.80.
- **Sappi:** downside target to 50 med-term (currently 65.92). It's a short on any minor (1-2 day) bounce. Stop a close above 72.40 for now.
- **Sasol:** see Chart 7.
- **Shoprit:** is now retesting its late-Jan low. I'm looking for a drop it the 145 level and a reversal *week* up from there is buyable and potentially 'the' bottom.
- **Sibanye:** lock in a bit of short-term profits but main targets are 18.90 then 20.40 ultimately. Med-term players hold with a stop below 13.50. Very short-term traders raise stop to below 16.50 (a close below). If you're trading it short-term, lock in some profits after a good multi-day run like seen over the past week.
- **South32:** it's not trading well and looks to have given a false breakout exit now regardless. Or, if you're prepared to hold, place the stop as a close below 36.75. It looks like it will drop to that level, and maybe rally from there. Overall it needs to close above 39.80 to go again.
- **Stanbank:** hold off from buying for the time being. It is trading below support.
- **Telkom:** closed below its raised stop by 1c. But it is giving a pullback that I still believe is buyable. So, re-enter long. Stop is a close below 70.70. Target is 80.
- **Tigbrands:** it is moving up off the mentioned support level and may well continue up to retest resistance at 290, but frankly I would leave it alone for now.
- **Vodacom:** triggered the short signal and reached its target soon thereafter. A reversal down for m118.40 is shortable again. Stop a close above 118.85. Target then to 110.50 then.

- **Woolies:** see update above.

GOLD UPDATE: Refer to Chart 4 of the HUI and the JSE gold index. The JSE gold needs to close above 1752 to give a new breakout. Right now it looks to be forming a bull flag in the very short-term, so a rally to that 1752 level is likely soon. Important support is 1485. On the whole, gold shares are still positive, and buyable on weakness.

- **Dollar gold price:** it's testing short-term support at 1308. A close below there will see it sell-off to 1288 (to sell short) and maybe 1278. Take profits at each level. Stop above 1325, then a prior one day high from 1291. The 1278 level is important support and it needs to hold above there if it's ongoing to attack 1360 soon.

USD/ZAR: the rand is targeting 14.78/14.80 still. A reversal day down from there is a rand long signal. That might be the rand low of the year, but it's obviously too early to say. Stop will be a close above there reversal day downside high or above 14.80 if higher. Target then to make its way to 13.70. But for now, the rand is under pressure in the immediate short-term. I'm expecting the dollar index to turn down again at any time and that will help the rand.

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	25.559
ASPEN	125.2983
BLUETEL	4.257
BRAIT	26.4453
CASHBIL	257.4723
CURRO	24.5413
EOH	16.696
FAMBRANDS	87.69
FORTRESSB	13.102
HYPROP	79.2043
JSE	155.7023
LIB-HOLD	101.97
M&R-HLD	13.8883
MR-PRICE	205.909
NAMPAK	11.9747

NETCARE	25.367
OMNIA	61.757
PPC	5.0577
RMIH	32.9537
SAPPI	72.4637
SHOPRIT	166.3237
TONGAAT	29.602
WBHO	114.8013
WOOLIES	45.5057

Int'l Instruments: 30-Day MA:

C-EUR-\$	113.1767
C-EUR-GBP	86.1703

OVERALL SUMMARY

There has been much talk in recent days about the yield curve inverting in the US. An inverted yield curve always precedes a recession, and bear market in stocks. But, it's important to know that there is about a 12-month lag from when the yield curve first inverts, to the start of the recession. As such, the current inversion of the yield curve is actually a bullish sign for the next 8-14 months.

Moreover, the Fed has turned dovish on interest rates (likely to lower rates as its next move), and that could well delay the next recession even further.

Also, very important to keep in mind, the final leg of any bull market is almost always a blow-off topping phase, where a huge move typically occurs in a short since of time (a 'melt-up'). So, this just reinforces that the going is still good in the US, and corrections there are still to be bought.

The JSE will hopefully follow, but at its more sluggish pace. Nevertheless, right now we'll settle for any upside on the JSE if we can get it.

Finally, I'm looking for the US dollar to start moving down again soon and that will hopefully give retail and bank stocks a big boost, as the rand strengthens. These sectors are very oversold right now.

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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