

Money Matters



Ord Minnett Buderim

Stockmarket investors have a wide range of methods available to them for assessing investment opportunities. These range from fundamental to technical analysis and everything in between. For example there's anything from insider trading (illegal), to tips from your mate, or worse, your mate's mate.

Ord Minnett's primary approach is to utilise fundamental research, either "bottom up", looking at the company first and then finding support through the macroeconomic view, or "top down", assessing the macro environment to pinpoint specific investment opportunities at the company level. However, another investment tool we would use in our overall review is technical analysis, or the study of trends in price or index charts. As the saying goes, a picture paints a thousand words.

There's one rather interesting technical indicator that has a lot of investors quietly confident the worst may be behind us in the market and that we are in the early stages of a market recovery. By its very nature, it is also important to note that the market is a leading indicator of improving economic conditions. Therefore the market can be 'on the move' well ahead of the good economic news.

The technical indicator referred to is the Coppock indicator, created by Edwin Coppock and first published in 1962. Coppock was an economist and he had been asked by the Episcopal Church (USA) to identify buying opportunities for long-term investors. He was of the

view that market downturns were like bereavements and required a period of mourning. He asked the church bishops how long that process normally lasted for people. Their answer was 11 to 14 months and so he used those periods in his calculations!

The indicator is trend-following, and based on averages, so by its nature it doesn't pick a market bottom, but rather shows when a rally has become established. No sell signals are generated, it was not designed for that purpose.

The Coppock Indicator is now providing the long-awaited long term buy signals by turning up from deep within negative territory at the end of April 2009 in all the S&P/ASX composite indices – 20, 50, 200, 300 and All Ords as well as the S&P/ASX Financials, 200 Industrials, 200 Resources and Small Industrials.


Sectors currently not displaying this signal include media, listed property trusts and gold miners.

Stocks catching the full impact of the signal include the resource leaders such as BHP, RIO, ERA, Woodside, Santos and Oil Search. In addition, a good number of second line resource companies, selected industrial leaders such as AGL and Origin and a number of finance sector stocks are presenting opportunities.

Time to consider your equity investments strategy if you haven't done so already!

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