*Current market analysis in the view point of a Technical Analyst*

# THE TECHNICAL TAKEAWAY

*by Softlogic Stockbrokers*

25th February 2022

# What is Technical Analysis?

*Technical analysis is a form of market analysis that helps evaluate investments and identify trading opportunities by analyzing historical statistical trends gathered from trading on the CSE, of which the core factors are price movements and trading volumes.*

*An informed investor should ideally couple technical analysis with fundamental analysis to make an optimal investment decision.*

## Fundamental Analysis

- *Expectations based on growth forecasts*
- *Revenue and profitability analysis*
- *Solves the problem of "What to buy?"*

## Technical Analysis

- *Expectations based on historical trends*
- *Price and volume analysis*
- *Solves the problem of "When to buy?"*

# Intro: Markets Slide To Start The Year

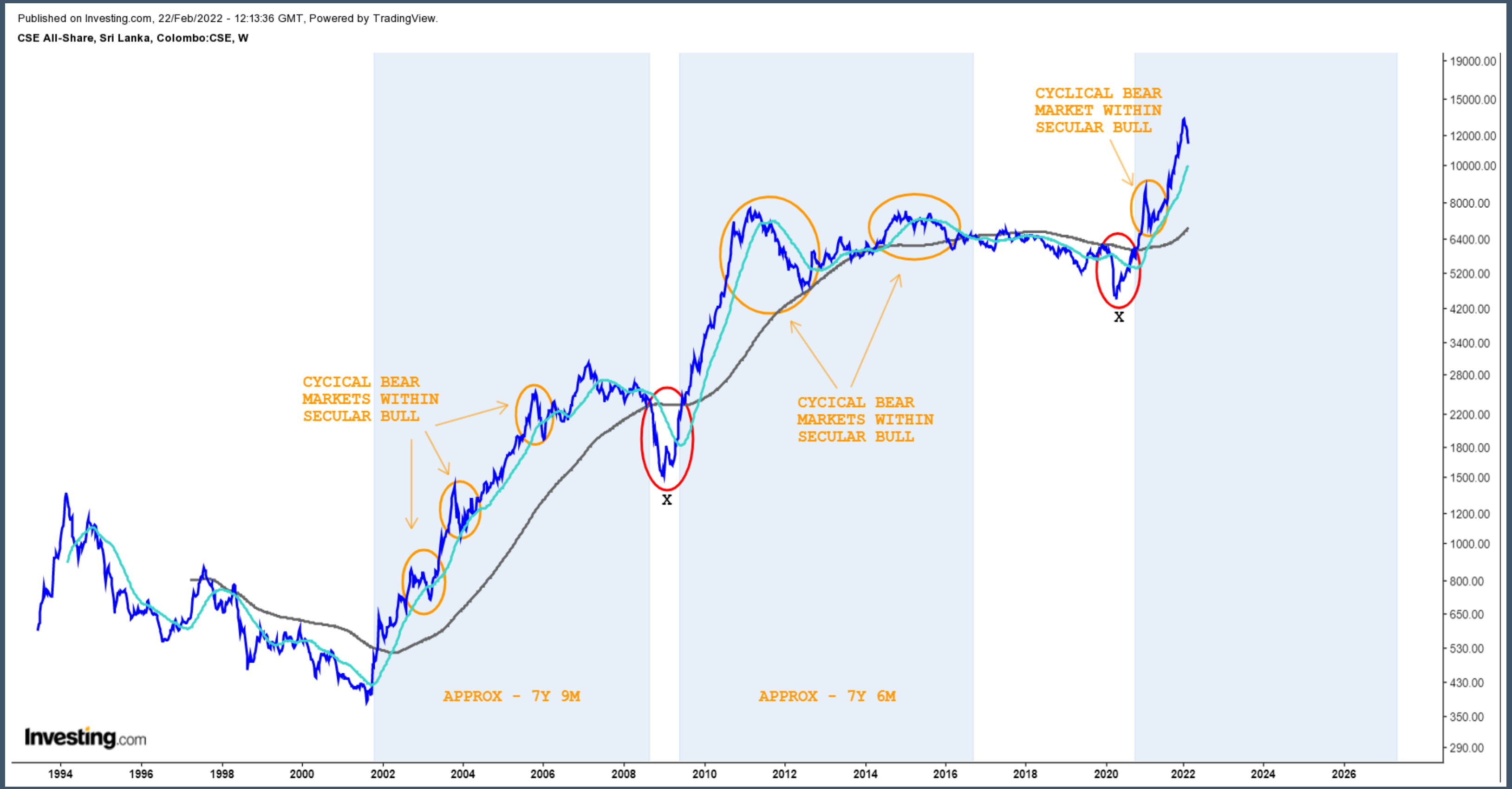
*The All share price index, which tracks the entirety of the listed companies on the Colombo Stock Exchange is down roughly 2,500 points from its all time highs; while conclusions can be made on why the market dropped from the current economic situation, Russian-Ukrainian tensions, possible interest rate hikes, IMF news, margin clearance amongst others, here we will solely focus on technicals and look into how a technician would view the current market condition.*

*Throughout the report, you will find various charts ranging from longer term timeframes such as the weekly to the more shorter timeframes such as the hourly timeframe. While this report mostly focuses on the long term view of the market, combining multiple timeframes is very important in order to have a more in dept view.*

*Needless to say, nothing of which is written in this report is a guarantee and the market participant is advised to form his/her own thesis with regards to the market first before relying on public information.*

# Diving into a possible "Secular Bull Market"

*The image here will describe what is known as a secular bull market. Generally a bull market is defined when prices are above a rising 200 day moving average; Secular bull markets are much more long term and generally more than the natural 2 year bull cycle, thus we focus on the 200 week moving average.*




*Several setups can be derived from the chart. Something very easy for the reader to see is that prices after breaking through the 200WMA has entered into a long term run up of roughly 7.5 years; We have seen this from 2002 – 2008 and then again from 2010 – 2016.*

### *What more can we see?*

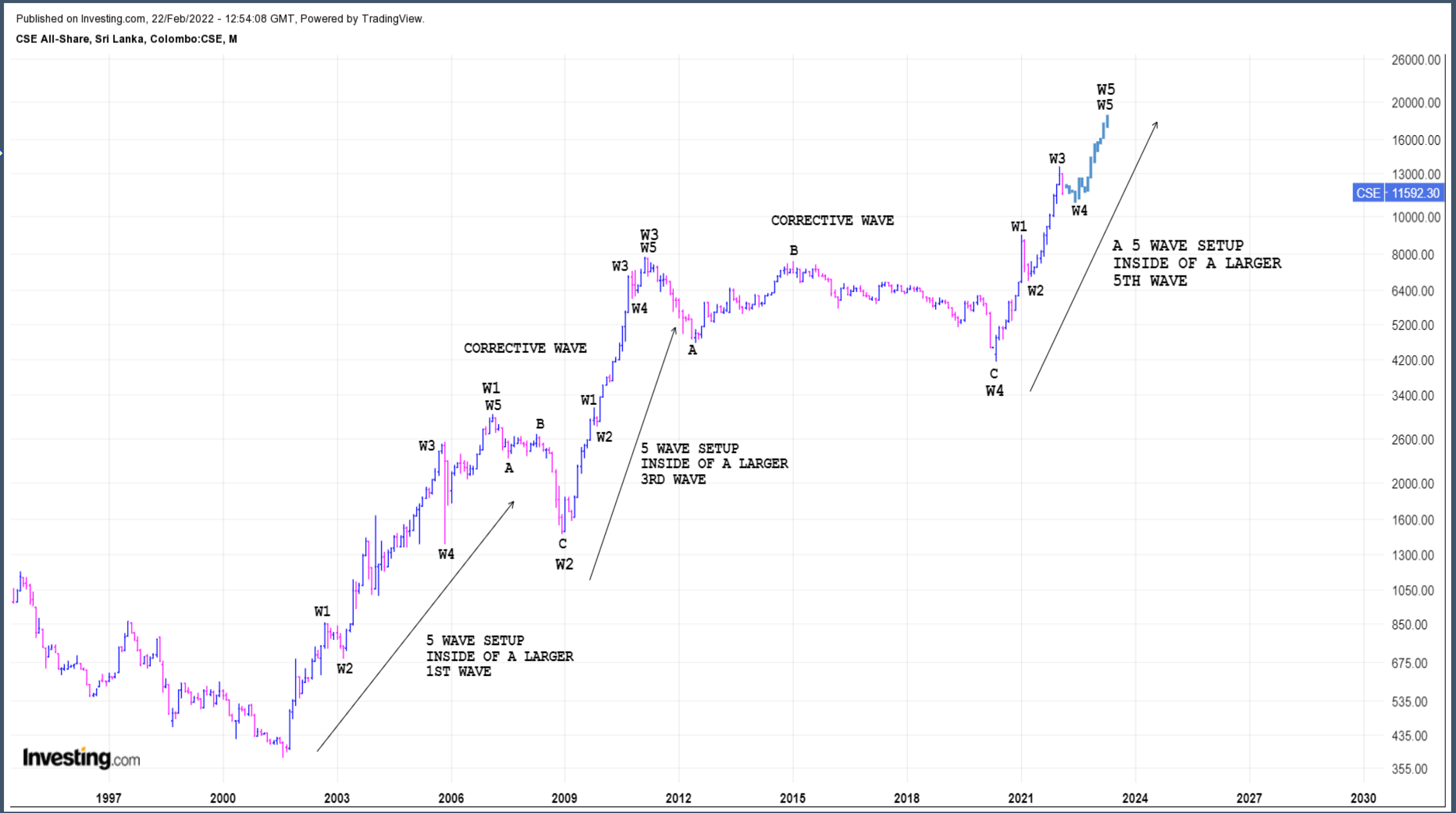
*Prices have also encountered a mega correction right after that phase which has generally been a globally induced downturn (2008 GFC, 2020 COVID19).*

*Right now, CSE seems to have entered another possible secular bull market which can (bearing in historical data) run up towards 2026. While we have looked at the 200WMA, we need to also factor in the 40WMA which is highlighted in light blue on the chart. The expectation here is that prices should continue to hold above it over the medium term (this has generally been the case throughout the previous 2 secular bull phases).*

# **Eilliot Wave Analysis :** What does the waves tell us about the current trend?

*Elliot wave theory is a form of technical analysis that looks for recurrent long term price patterns related to persistent changes in investor sentiment and psychology. Using this has continued to be very effective across global markets.*

*The image here looks at the monthly chart of ASPI and what wave analysis tell us about future price movements.*




*Generally, a complete bull run consists of 5 waves, 3 impulsive waves and 2 corrective waves which are numbered wave 2 and wave 4 (even numbers).*

*While we see multiple wave counts on the chart, we are more focused on the more larger waves. If you look more closely into the chart, the long arrows show the 3 bull waves, namely wave 1, wave 3 and wave 5. Most of this report will be based on the above theory and why CSE has one more impulsive wave before we run into a more stronger correction.*

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# Eilliot Wave Analysis : What does the waves tell us about the current trend?


*The above image is a more close up view of the 5th wave on the monthly chart. This again adds more confluence on the idea that there is 1 final wave left into a new all time high. While prices have lost decent ground over one month, the best case scenario for the investors is we hold the current lows, consolidate and breakout like what happened during the Feb'21 – April'21 accumulation.*

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# Where do fundamentals support the "Secular Bull" market theory?

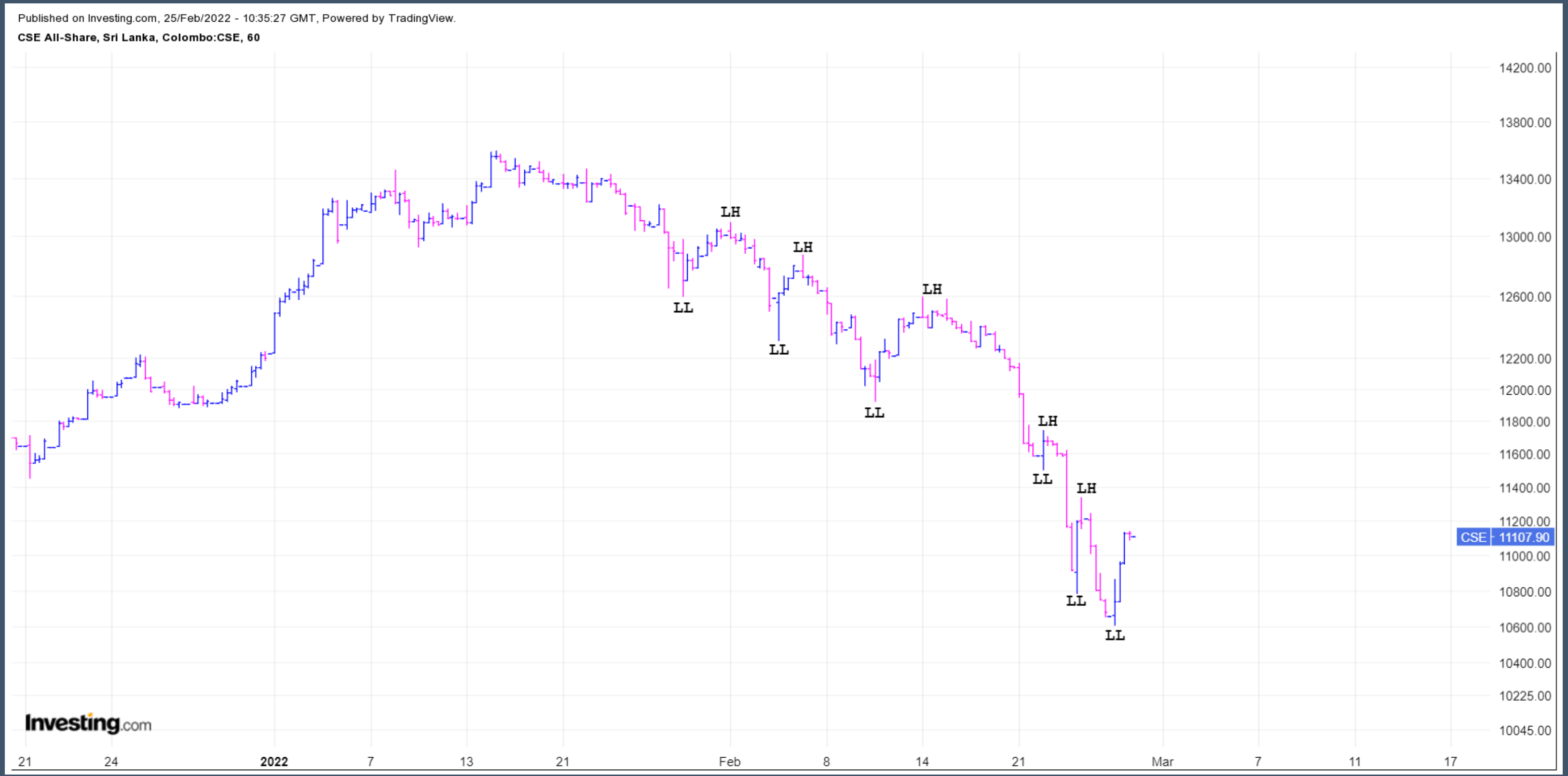
*The reason why we need to consider this is because of the fact that the market at some point reverts to its mean; either the overall economy starts catching up or the market does.*

*Here are a few reasons which would support a persistent and sustainable uptrend in the market;*

- ***General improvement in tourism*** *– While Sri-Lanka has continued to lose income from one of its main drivers since 2019, we have currently seen a much stronger pick up in tourists arrivals. Despite not being where we were before 2019, a continued pick up in tourism will yield a lot of benefits*
- ***Port City*** *– A hugely spoken topic and probably a game changer for Sri-Lanka over the long run. Yet to prove itself since we haven't really seen much FDI's come in with regards to this*
- ***Export Growth*** *– Exponential growth in exports over the long run*
- ***Company Fundamentals*** *– Companies have continued to perform, releasing record profits which in turn makes the market look more favorable even at current market prices*
- ***IMF –*** *There is much confusion with regards to the IMF and on where this will have a negative impact on the economy and in return to the market. While it can go either way over the short term, we believe this would be a strong positive for the economy over the long term which would be reflected positively on the market as well*

# Higher High, Higher Low Setup

*Generally, an uptrend is defined through a series of higher highs and higher lows. This therefore would give us an idea on when we can expect prices to shift its trend and signal a possible bottom.*



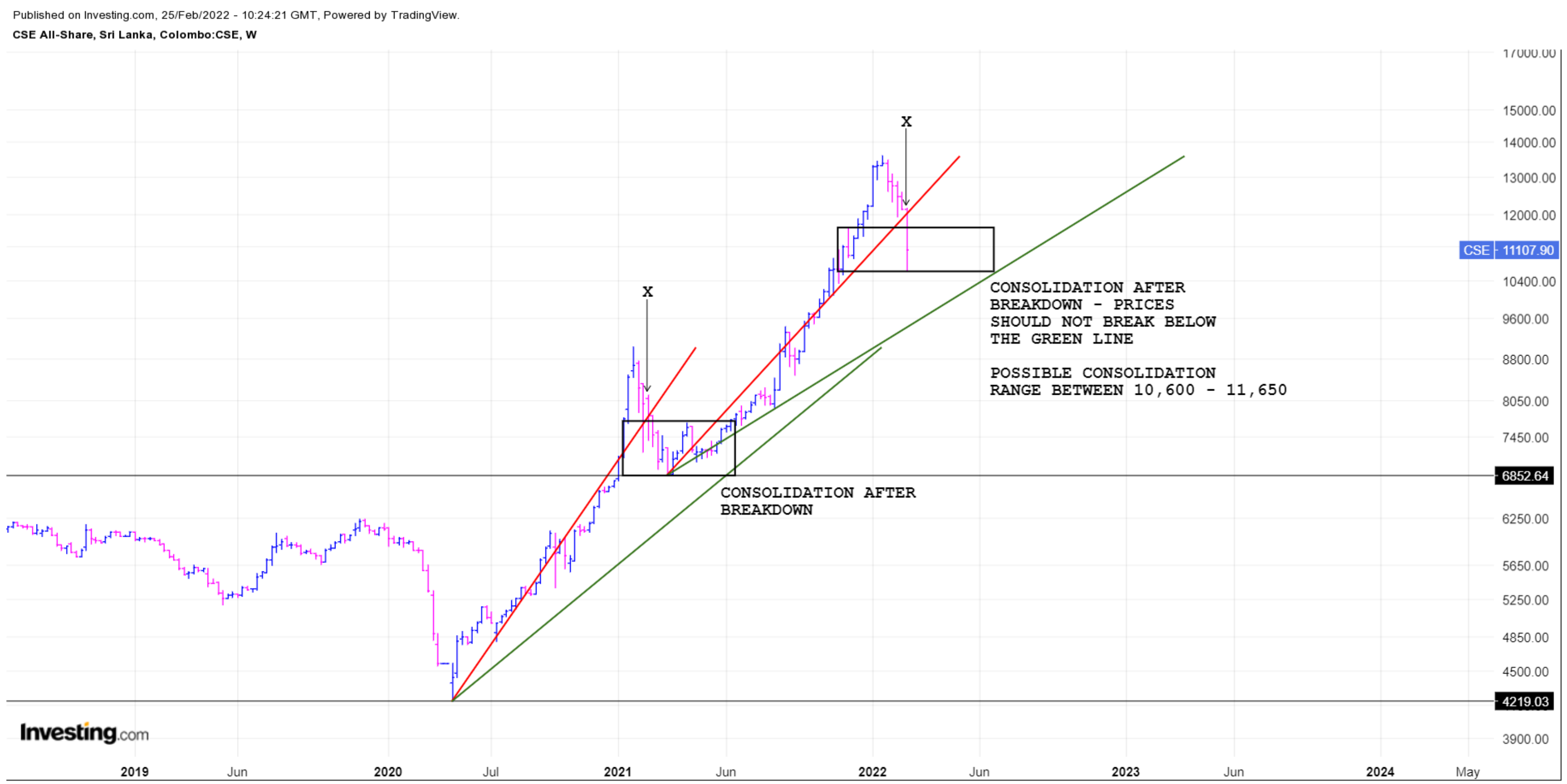

*The above is the hourly timeframe of CSE and shows data all the way from the current market top up till the current market low. Prices are continuing to form lower highs and lower lows which defines a downtrend in price. Therefore this would act as a key piece of information in determining a trend change since a break of this pattern would likely signal a possible bottom.*

***What do we need?***

*As of the chart, we need to create our first higher high and higher low, this would mean we hold above the current lows and move higher. A key range to break through would be between 11,340 – 11,500.*

# What are the other possible trend reversal signals?

*The images below will explain both sides of the coin. One which would show what the buyers need to hold and the other would show what the buyers need to breach through.*




***What the buyers need to hold?***

*Comparing the current move with that of Jan21, we can see that the red trendline was broken at a very similar steep angle which also signaled a more stronger move to the downside. Regardless, the green line is the one of more importance for the market. It was never broken before and prices need to continue to hold above it. Generally, after the strong break below the red line, we have seen prices enter into a sideways/consolidation phase which is the likely scenario for ASPI over the next 8 – 10 weeks.*

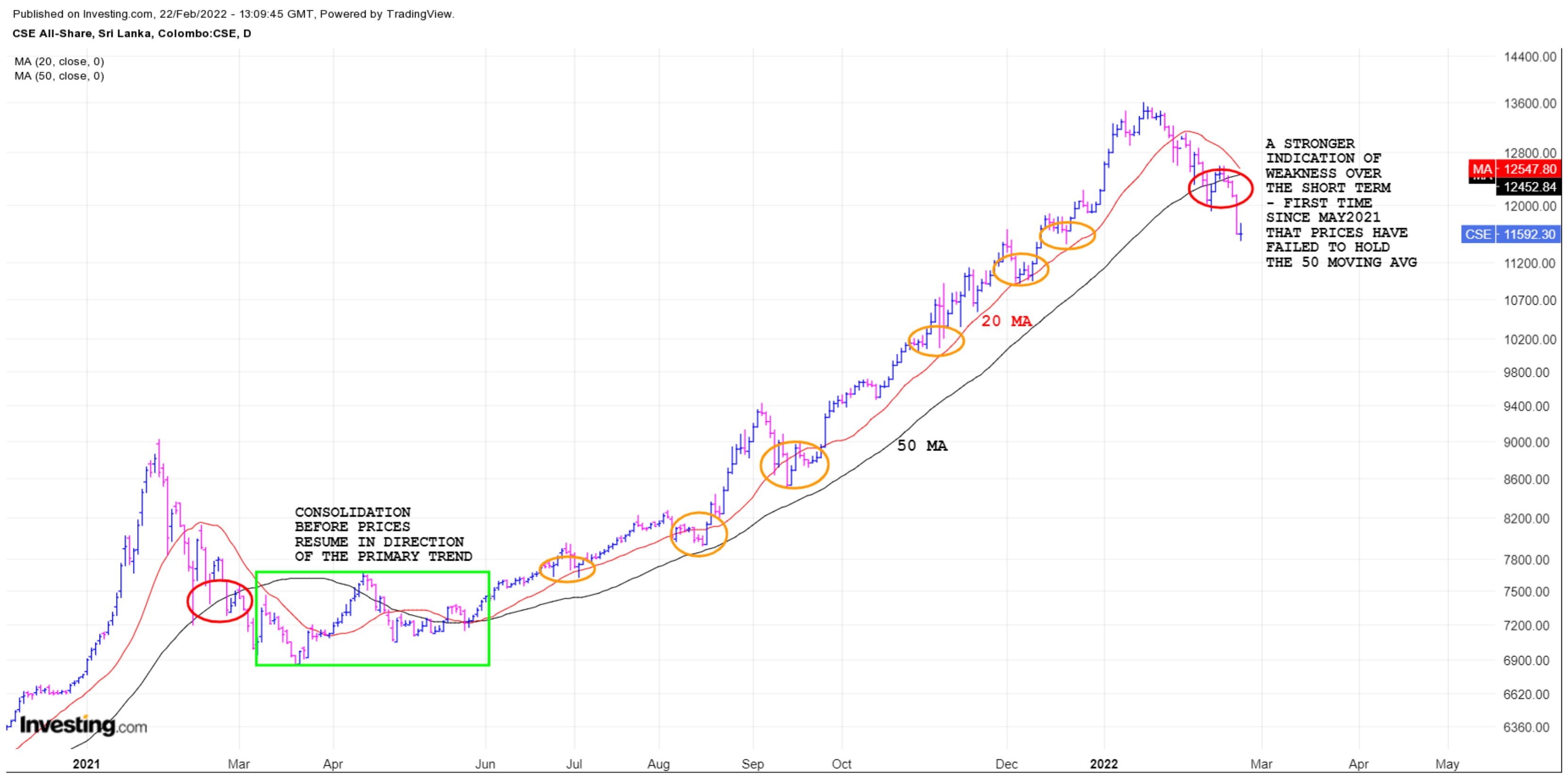
# What are the other possible trend reversal signals?


***What the buyers need to break through?***

*As of now, we have 2 key lines to breach past; line X & line Y. While breaking past both are important, our main focus is on Y and how convincingly prices can break through it. Therefore, this opens up much of the opportunity for the market to consolidate and for accumulation to happen for the next runup.*

# Why we continued to be bearish over the short term?

*While a lot of speculation was there of where the market would bottom out, we were firm on our assumption that the market would likely continue lower towards the 10,000 – 11,000 range. Several factors signaled the reversal above 13,000 amongst which a few would be discussed below.*




*Take a look at the chart above; right throughout June of 2021, we have continued to see both the 20MA and the 50MA provide support and continue to have a positive slope on their moving averages. The above chart highlights 4 red flags;*

- *First was when prices broke through the Higher High, Higher Low formation on Jan 27 right above the 12,900 range*
- *Second was the slope of the 20MA which turned negative to favor the downside*
- *Third was the break below the 50MA which last happened during April 2021*
- *Fourth being the continuous formation of Lower Highs and Lower Lows*

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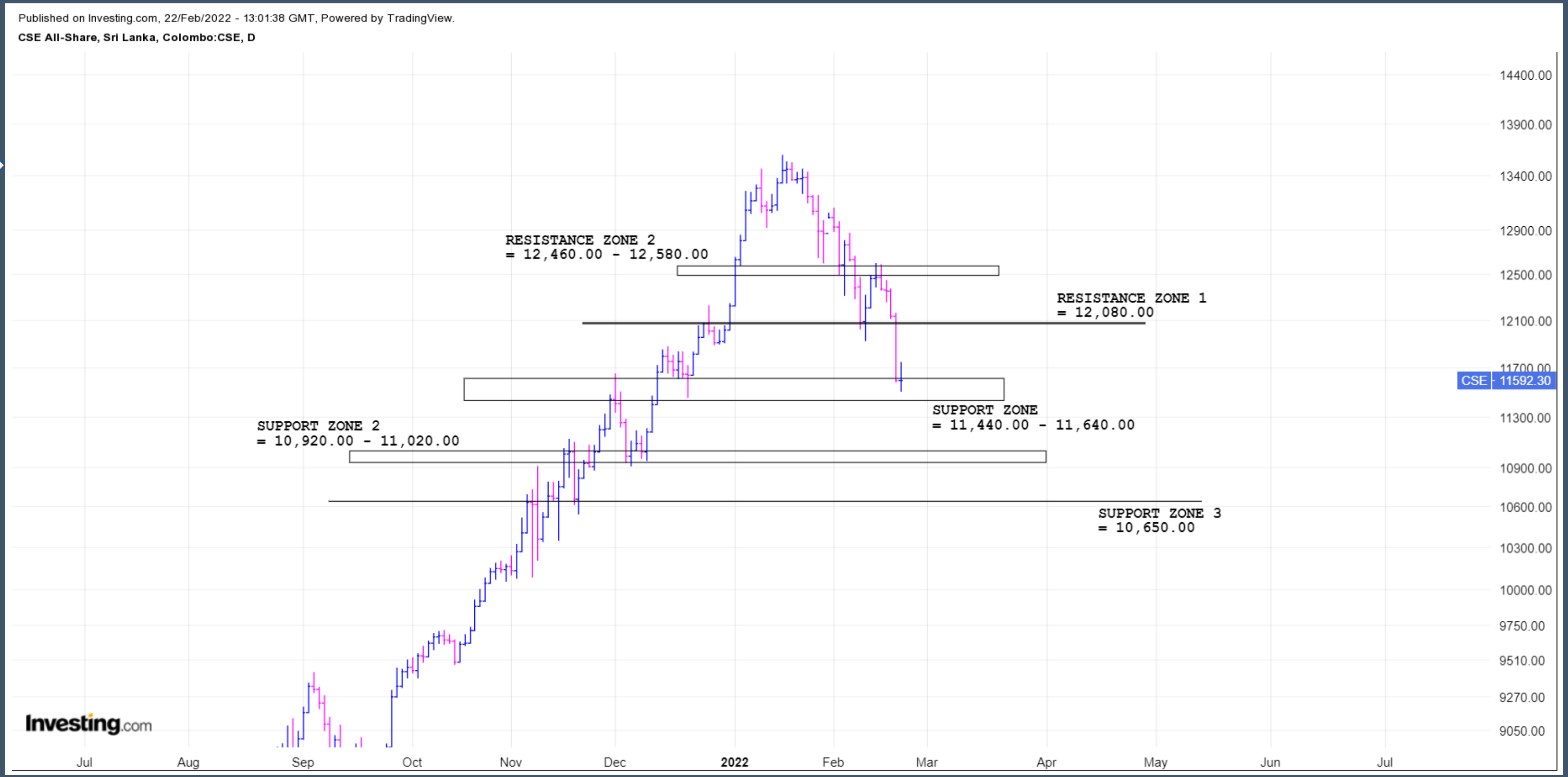
# Support & Resistance levels

*Below, we will be looking into the more key horizontal support and resistance levels on the chart. We have decided to include a chart from a few sessions back to understand how support can turn in resistance once broken and vice versa (also known as the polarity effect).*




*As of now, prices bounced off of our support level at 10,650 and managed to close above the 11,920 – 11,020 range. While we have a 2 bar reversal on the daily chart, it is important for prices to now consolidate above 10,900 – 11,020 before breaking out higher. Since support at 11,440 – 11640 was broken, that level will now act as a point of supply for the buyers.*

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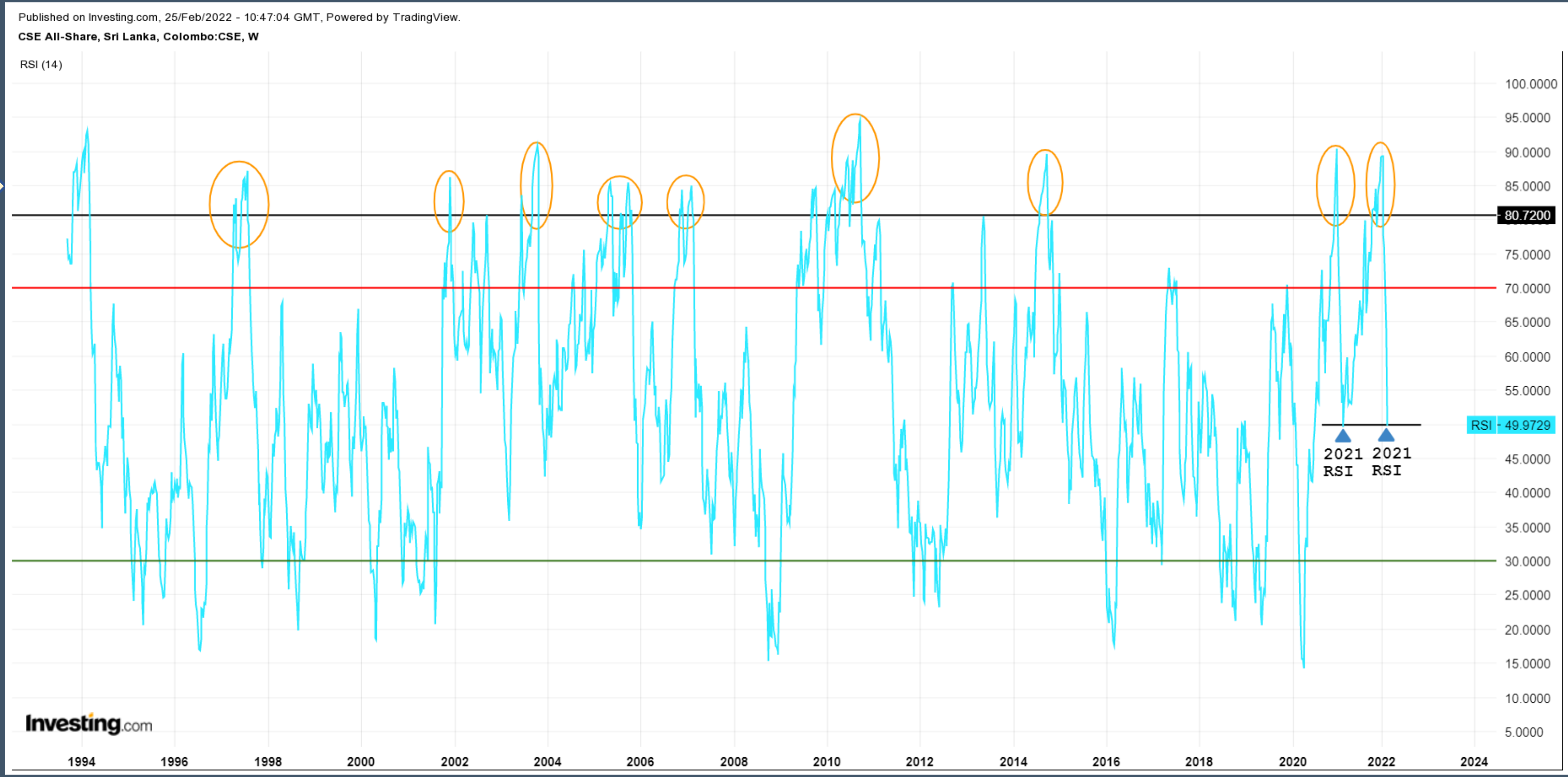
# A final look into 2 key indicators

*While indicators can be useful during times when prices are overextended or trading inside a certain range/pattern, price action and volume analysis always comes first. Below, we will look into 2 main indicators, the RSI (Relative Strength Index) & MACD (Moving Average Convergence Divergence)*




*2 key points to note for investors here. The circled points on the chart all indicated downside reversals on the weekly timeframe. What this shows is that prices have a tendency to reverse when the weekly RSI crosses above 80.*

*On the flip side, we see that the current weekly RSI is roughly around the same level as what the RSI was during the Jan/Feb correction in 2021. While indicators should never be used as confirmation of a bottom or top, this adds further confluence that prices might have reached a likely bottom around these prices.*

*Moving onto the MACD, this again gives investors 2 good signals; one that signaled an impending market top and the other might likely signal a possible market reversal to the upside.*

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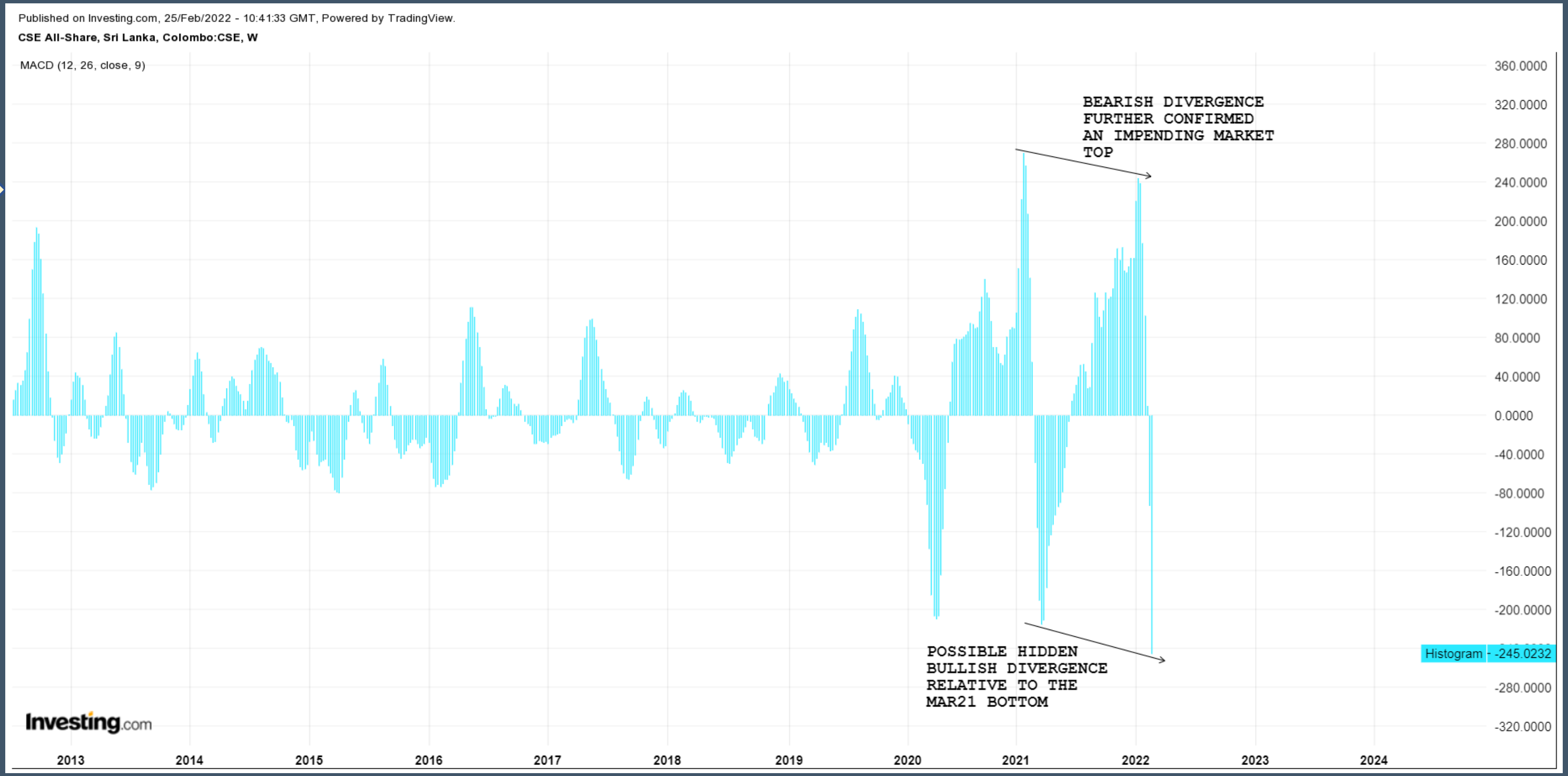
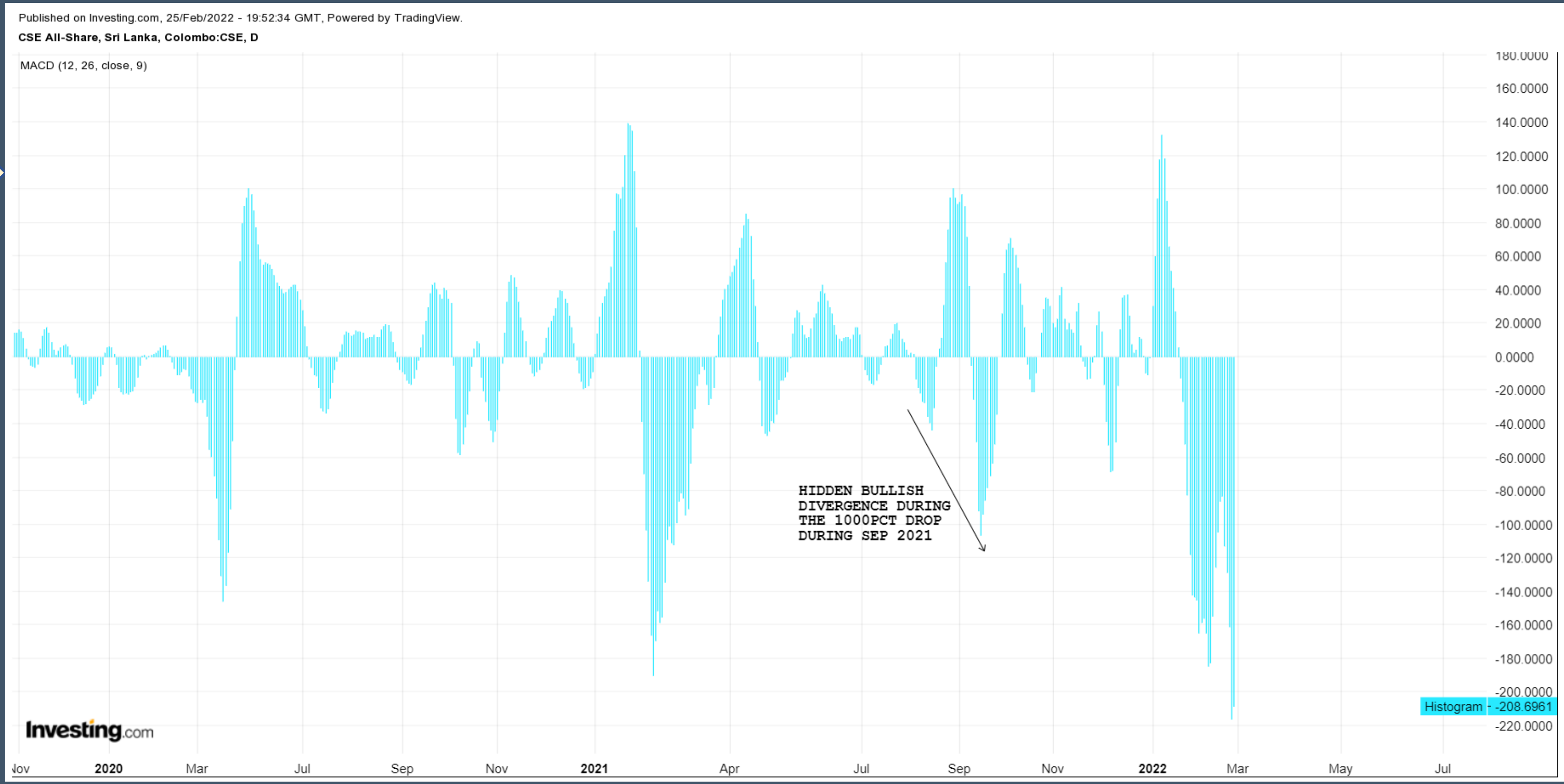



*Lets start from the top; the negative weekly divergence was another big reg flag which would have warned investors that we have likely reached a market top (at least for the short/medium term). Looking more further into the lower end of the chart, we see a stronger signal for the long investors; a hidden bullish divergence. While prices need to confirm this, this is not the first time ASPI has had such a divergence.*

*Take a look at the strong correction we had right after prices crossed 9000 for the 2nd time.*

# A final look into 2 key indicators




*Prices retraced close to 1000 points over the span of 10 days; while the drop was sharp, prices still remained at a higher low whilst the MACD formed a new low; this signals a possible bullish divergence. Like mentioned above, prices need to confirm the signal.*

# Conclusion

*Most of what we have mentioned above gave you the reasons and the red flags that arose very early for an investor to act on. At the same time, while we are currently trending lower on the short and medium term timeframes, the long term timeframes continue to favor the long side.*

*The current downtrend, while its heavily affected the sentiment of the market, investors need to remember that strong volatility doesn’t just occur on the upside; prices will correct quicker if it rises at a steep angle.*

*As of now, prices need to continue to consolidate while ideally holding the current lows of around 10600 (we will continue to remain in a bull market as long as we are above the 200DMA). Consolidating between the 10600 – 11600 range for a favorable time will give the market the opportunity to attract more demand and let the volatility ease off; how-ever remember that with a contraction in volatility comes an expansion in volatility. Therefore, a favorable consolidation phase followed through by an upside breakout would likely initiate the next run to a new all time high.*

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