

THE blue chip INVESTOR

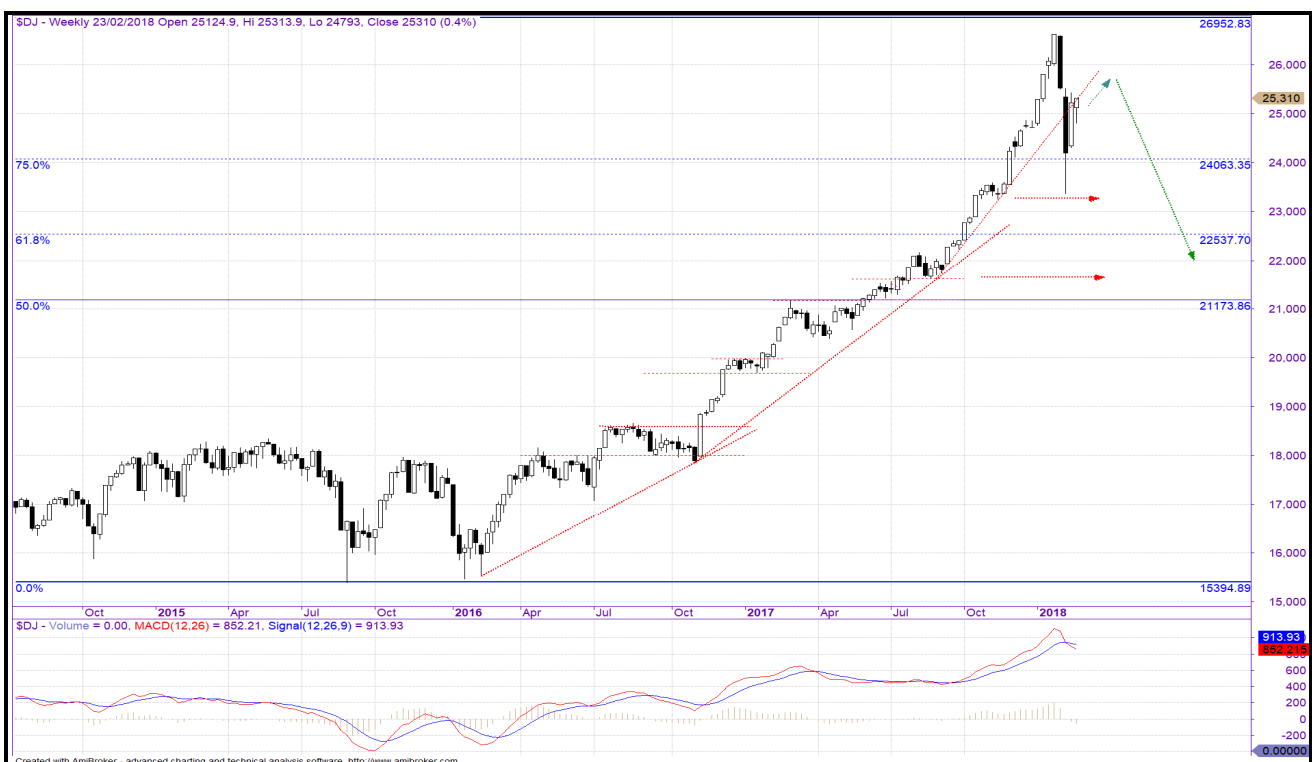
“Fundamental & Technical Trading Ideas for the Active Investor”

What We're Watching

26th of February, 2018

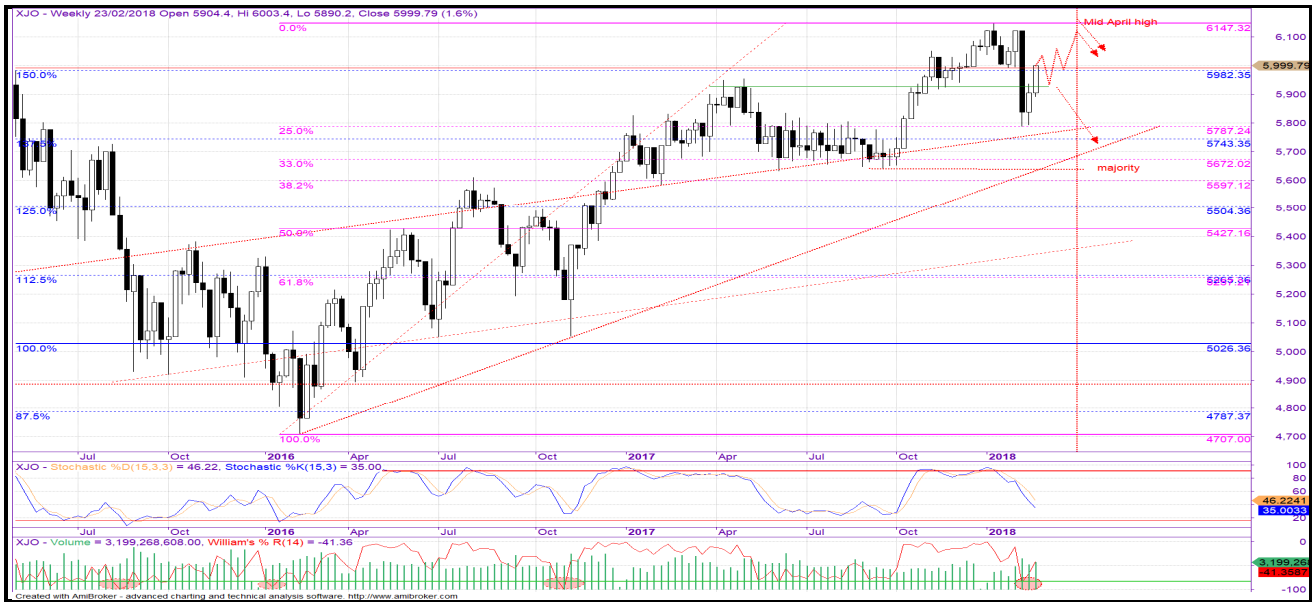
Dow Jones Industrials Index - Main US Index (\$DJ) Weekly Chart

- After a very sharp and deep sell off from the recent peak, price has now had a two week recovery and bounced back 61.8% of the range.
- Keeping everything in context here, the recent 12% correction from the peak has followed a 72% rally in the last 24 months which was the fourth largest in that time period.
- Normally there is a period of distribution or some sort of lower high or marginal new high before we see a larger correction unfold but considering the speed of the first leg of this correction, the second leg down may not follow as quickly.
- Vertical markets or blow off trends as they are often referred to, give you a clear target once they lose their momentum, back at the point where the last leg accelerated from.
- 23500 was the first region where we saw some acceleration take place in the bullish trend. The next key support is at the 21500 level which is where this last leg in the bull market really took off from and where historically all vertical trends would come back to.
- 21500-22000 is our ultimate target area but how it gets down there could be tricky from here as we could see this volatility continue.
- A lower high that takes some time to set up is a strong possibility and the usual fast and quick three legged correction may not occur here like most traders are thinking at the moment.
- 21500 is a given in my mind but how it maps out the path there could take more time than most are thinking.



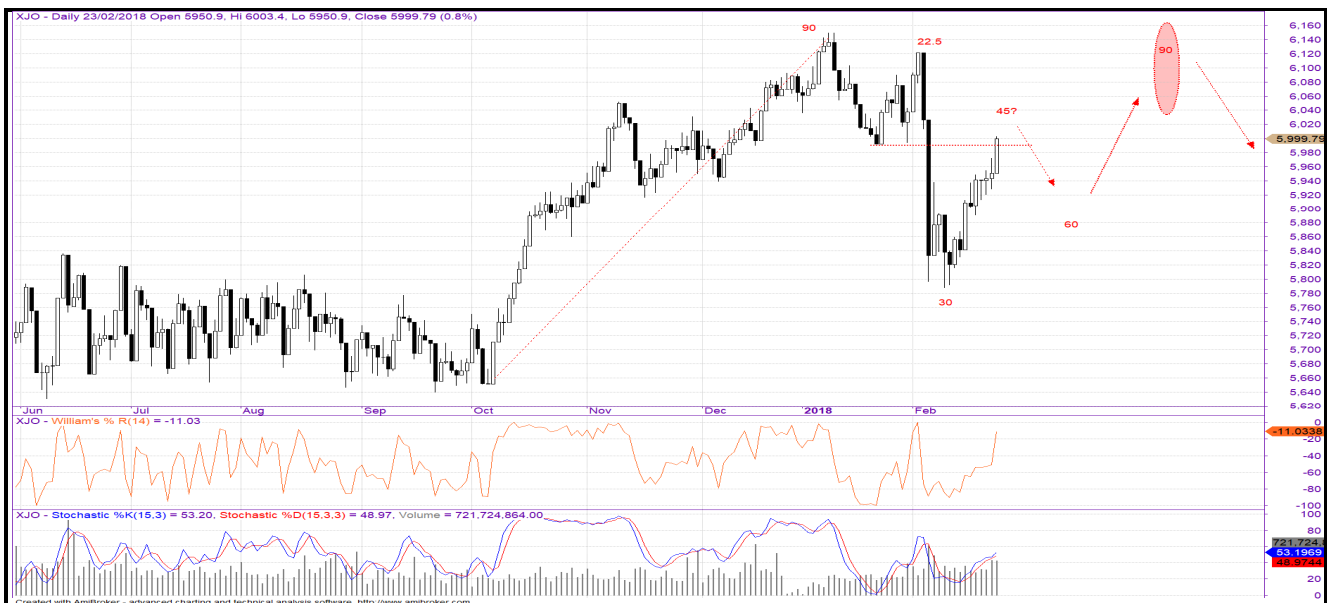
S&P ASX 200 Index - Main Australian Index (XJO) Weekly Chart

- The bounce following the recent sell off has been reasonably impressive so far.
- Will this just be a short and sharp bounce before a larger correction takes place or will this take more time to distribute first.
- The Australian market has a very strong seasonal pattern that normally drags the market higher from late January to late April, so this is a reasonable probability again and could delay our next leg down till mid April.
- 5745 is still our downside target here and it would be rare to not have a second leg down to this level but I am not sure it's going to get there in a fast fashion like a majority of traders think.
- I still expect this to be a very volatile year ahead so we should see volatility both ways here. I would prefer to see a lower high or marginal new high take place in mid April but acknowledge there is still some risk here at the moment for another leg down.



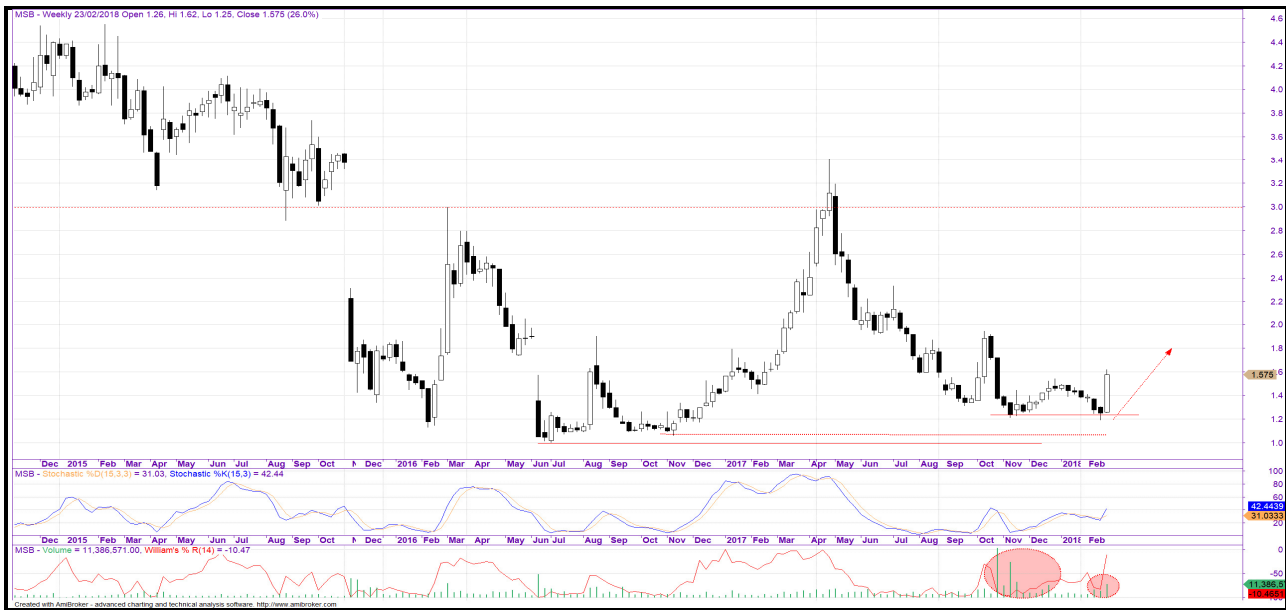
S&P ASX 200 Index - Main Australian Index (XJO) Weekly Chart

- The classic pullback or most common is a larger three wave correction where the first leg down is matched in price by the next leg down.
- The classic amount of time taken is for the peak to come in on a final one quarter year rally or 90 days from previous swing low to peak.
- Gann ranges in time (1/8 and 1/3) are the most popular in terms of inflection points from the peak. (22.5, 30, 45, 60 and 90 days are most popular) So far a lot of these timings have had strong validity.
- 45, 60 and 90 days are the most popular timings ahead so we should watch for a possible turn on each of them. Can't help but think with the strong seasonality of the Australian market to rally to late April, that the 90 days from the last peak could be a very important date in 2018.



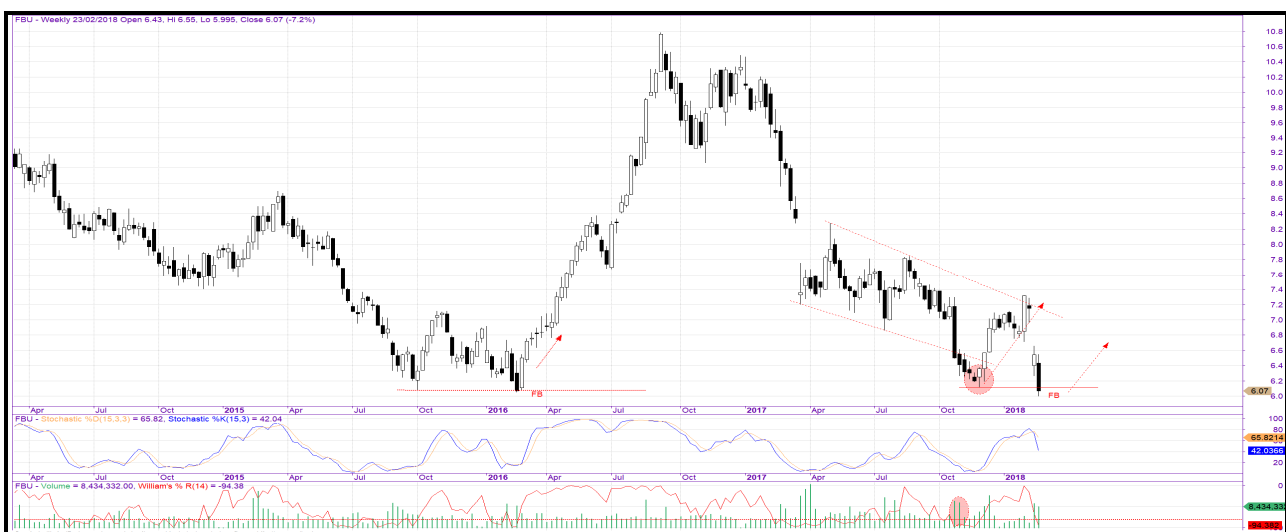
Mesoblast Ltd (MSB) Weekly Chart

- It has been another interesting week for this company after another positive update on one of its trials.
- Price has recently made a marginal new low or false break on the down side and now bounced strongly on firm volume.
- This is one of my favourite stocks from a longer term perspective at the moment as I consider MSB to be the premier global player in regenerative medicine and stem cells area.
- Yes this company has raised a lot of money to date to fund its trials and patents but sometime in the future those investments are likely to come back in plenty once some of these trials reach commercialisation.
- This company has its risks no doubt and the amount of time that it takes these medical companies to achieve commercial success is a reasonable risk. Should this company get one or two of their Phase 2 and Phase 2b trials fast tracked to commercial status, it could be a significant economic milestone for this company.
- With the recent takeover bids for Sirtex (SRX) and Viralytics (VLA), the biotech area is about to heat up in my opinion.



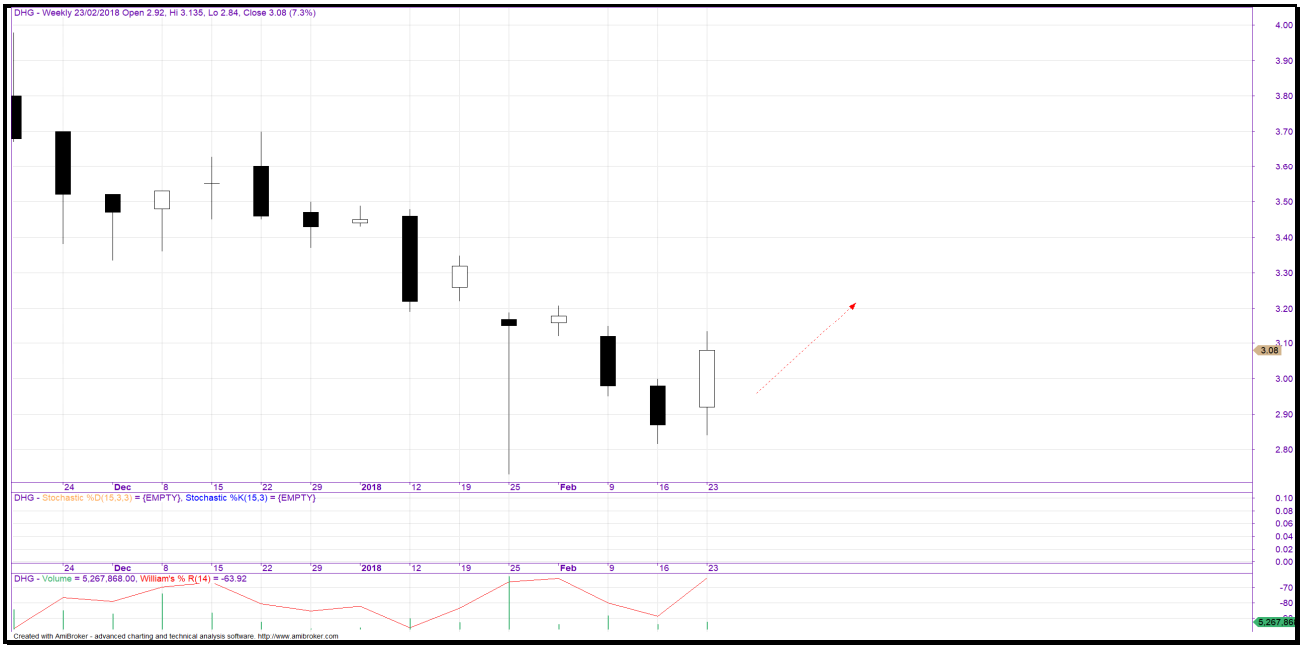
Fletcher Building Group (FBU) Weekly Chart

- The last time we got down to \$6.25 we bought the stock and traded it out after a \$1.00 rally. (just over 15%)
- With price back down at these lower levels and back on a P/E of 11 times again we should be considering another position again.
- Some might be concerned by the asset write down in their ? division a fortnight ago but it is quite common for a new CEO to do this type of thing at the start of their reign. A clearing of the decks so to speak gives them a clean slate to make their mark.
- Only one of their four divisions has been causing this company any issues and squaring this problem off early is probably a smart move.
- I expect the market to warm to the new CEO and the hard calls he has made early and any reversal in price here should be followed as this could be another classic false break and bullish turn around should be expected from here.



Domain Group Ltd (DMG) Weekly Chart

- Like a lot of new IPO's there is always genuine excitement early when they list and on a majority of occasions they come on very strong early usually trading at a premium to the issue price.
- After the initial run up profit taking normally occurs as the premium to the issue price is often too great to ignore so some profit taking often occurs. As news flow goes quiet the share price usually fade for quite a few months until some more news or earnings guidance gets released.
- This sort of pattern is quite common in new quality IPO's and once price has come back to a more reasonable price point then the normal advance occurs. This is usually the best time to look for an entry if you think the IPO has a bright future. Domain has done exactly this and this might be the ideal time to enter.



Propel Funerals Ltd (PFP) Weekly Chart

- Similar to DHG here, price has pulled back deep into the range after the initial flurry of activity of its IPO.
- I have seen so many of these new large cap IPO's follow the same path lately it is coming almost too common and predictable.
- Propel Funerals is likely to follow a similar path that Invocare (IVC) took in its growth and development that this group could go through rapid growth over the next few years.
- Some positive guidance could trigger the start of a much larger rally if history is any guide. Its growth outlook from here could be very exciting.



Trade Me Group (TME) Weekly Chart

- Trade Me Group has completed a larger three wave correction into late 2017 when we look at the weekly set up.
- The recent bounce from this late 2017 low bounced sharply for 5 weeks and now price has pulled back 10 weeks in duration (twice the time) and it has held above the previous swing low.
- Volume has increased here at the lower levels and this now looks like the first higher low after the recent deep low, so this is as good as normally gets from a positive probability perspective. It looks very bullish here.



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There are no certainties in the share market, only probabilities.

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