

Run with THE BULLS

Full-time trader Daryl Guppy divines the future for us

Daryl Guppy, resident of Darwin, Northern Territories in Australia, 3,000km from the nearest stock exchange, trades for a living. His isolation doesn't daunt him because he trades electronically, and his trading decisions are based on charts. He developed the Guppy Multiple Moving Average (GMMA) Indicator, which is included in Metastock, OmniTrader and other charting programs. Guppy was in town this month for a series of talks organised for the investors and clients of OCBC Securities. "Run with the bulls, hunt with the bears" is the tagline of his company, Guppytraders. He shares his outlook for next year with *The Edge Singapore*.

Let's start at the bottom. Is there any stock you would pick for 2007?

Yes, CapitaRetail China Trust [CRCT].

Why?

Because of the demand — there isn't enough supply to satisfy demand. [CRCT's placement tranche was 196 times subscribed.]

Where do you see the markets in 2007?

Different markets are at different stages. The key difference is, some are approaching or are limited by barriers. Other markets can go higher than we can possibly anticipate. We limit our own potential for taking advantage of the market by imposing our own limits [in our minds] on how high the market can or cannot go. Look at it this way. If 12 months ago anyone had said the Straits Times Index would be reaching its current levels, you would regard that as an out-of-range forecast. So we limit how the markets can



BY GOOLA WARDEN

perform by our own limitations. We manage these trading markets with no barriers by looking at the nature of the trend.

How does the STI look to you?

The nature of the STI trend is very, very strong. The long-term moving averages in the Guppy Multiple Moving Average System are separated, and that tells us the pullbacks are for people coming into the market to buy. Because the trend is so strong — and there is a strong probability that

the pullback will come back to the trend [line]. We have been in a situation where the trend has been weak going into Chinese New Year, so that when the sell-off takes place, it gets the trend into a downtrend rather than an uptrend. The STI is quite strong in that respect.

Does this mean the market can move higher after Chinese New Year?

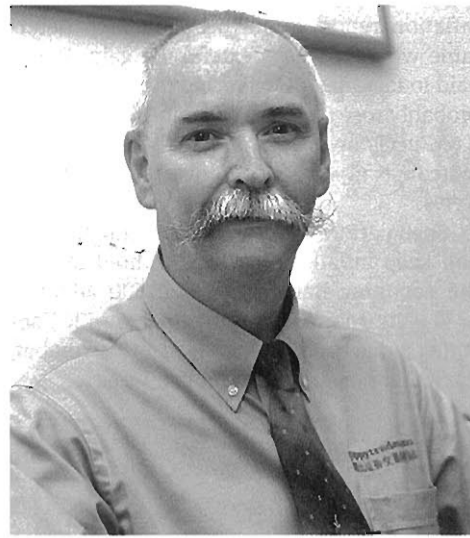
Well, for the Singapore market, there are no RSI divergences. It doesn't mean that the trend is bulletproof but it means a lower probability of a [strong] retreat. That [consolidation] could happen around the Chinese New Year period but it has less of a probability of turning into a downtrend.

So there will be a correction around Chinese New Year but no downturn?

Yes, there will be less probability of a trend change.

Are we the best-looking market in the region?

Well, the Kuala Lumpur Composite Index is limited by barriers. It already has previous



Guppy is bearish on oil

highs. The problem with it and indices like the Nasdaq is that they're hitting those barriers. In the case of the KLCI, it is reacting away from its barriers; its ascent is starting to slow. If you look at a weekly chart [which has more significant meaning than a daily one], you will see it approaching a resistance level.

The KLCI is always defined by this wonderful range trading. In Singapore, the nature of the trend is the most significant factor because there is no resistance sitting there.

The ASX market is experiencing a lot of volatility. If you get volatility in a trend like that, it's telling you that traders have lost confidence for that trend to continue. We see continuation of trend weakness in the ASX. It doesn't necessarily mean a trend change. Some RSI divergences are developing, though.

How do you use the GMMA system?

When the long-term moving averages are well separated as the short-term group dips into them, that's a temporary consolidation in an uptrend. If that long-term group begins to compress at the same time, then that really means there is a possibility of a trend change. If the long-term moving averages start to compress, that's when the uptrend starts to weaken.

But if they are rising, then you've got investor strength on your side. The shorter-term group represents the traders. Traders are more

active than investors. Sometimes, in the short term, you have this feeling that the tide could be against you. Then you would want to sell. Those with shorter-term perspectives looking for shorter-term profits are traders — they're not necessarily weaker holders of stocks.

The GMMA's are picking volatility within the market in multiple time frames. Compression in both groups point to increasing volatility and increases the possibility of a major trend change. They become a proxy for the major activity of traders to exit [or enter] the market. Intra-day charts are used in the same way — the short-term group becomes the tool for intra-day traders, and the long-term group is for the daily traders.

What about markets like Hong Kong and its Hang Seng Index?

China is driving the HK index, particularly the red chip index, which is what is leading the rest of the HK index. Hong Kong Enterprise Index [the red-chip index] has exposure to China. Listings like China Life and Ping An Insurance are sustainable as long as Chinese companies are required to list outside of China to access foreign capital. In 2007 and 2008, when the renminbi becomes fully convertible, Chinese companies will not be required to list outside of China. The Chinese government has taken the first steps along these lines by refusing to give Chinese companies permission to list in New York. If I were a Chinese company, I can list in Shanghai or Shenzhen, as opposed to Hong Kong, where I would have to follow some archaic British colonial rules, or New York to comply with the Sarbanes Oxley Act. And, foreign capital will come to us because of the long-term growth. If you take China away from Hong Kong, what is there? On a systemic level, I see a high level of political risk in Hong Kong and hence the Hang Seng and China Enterprise Index. Looking forward six to eight months, those markets carry a high level of political risk.

Let's move to the other side of the world. The Dow's been making new highs? Do you see this continuing?

Well, the Nasdaq and the Standard & Poor's 500 haven't made new highs. We can continue working with support and resistance. Only the Dow has gone to new highs. The Nasdaq is still very much in band trading. We can't say that there's a strong uptrend — Singapore is stronger. The Nasdaq and S&P both have barriers ahead that will limit their potential rises. It's just a small section, it's just the Dow that has a good headline. It's an emotional thing but it doesn't give us the true picture of the underlying weakness in those markets. You can compare that to the current state of the US dollar, which is not something you would want to be owning at this point in time.

What is your outlook for commodities?

Gold has this wonderful triangle. A descending triangle with a downside target. It has a relatively low probability of breaking out on the upside. Even if we do break out, it will be a short-term rally. On a chart basis, such a breakout would be relatively weak and have a lower probability of reaching its pattern targets. More likely we'll see a projection downwards to US\$460 [\$1 approx US\$0.65] an ounce. On a chart basis, this breakout is relatively weak and has a lower probability of reaching its pattern target levels.

As for crude oil, I'm bearish on oil. I've made more money on oil shorting in the last couple of weeks. Oil moves in defined bands. It has a high probability of changing into a downtrend. If I'm going to get really carried away, there's a neckline and we can project that down to US\$40 per barrel. Even if it breaks up, it will be a rally in the context of a developing downtrend. A retest and break of US\$58 to US\$56 would bring us down to the US\$48 level and there is no support between those levels. **E**