Fibonacci and the S&P ASX200 – Where to from here?

I am constantly asked the question about what is the direction for the Australian share market in the year ahead. I am like most asset consultants mildly optimistic about better returns for 2016 mainly based on the recent company reporting season and the general health of the services sector along with the fact that the Australian dollar and commodity prices seem to have found a bottom...maybe.

To gain a better insight into the market direction I thought it would be good to take a look at where the S&P ASX200 has been over the last 15 years and what are some important support and resistance levels to target for either dollar cost averaging clients into the share market or allocating fresh capital (and dividends).

From the analysis of the data:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Years | Records | Min | Date | Max | Date |
| 1 | 263 | **4,765.30** | 12/02/2016 | 5,982.70 | 27/04/2015 |
| 2 | 516 | 4,765.30 | 12/02/2016 | 5,982.70 | 27/04/2015 |
| 3 | 769 | **4,656.00** | 25/06/2013 | 5,982.70 | 27/04/2015 |
| 5 | 1273 | 3,863.90 | 26/09/2011 | 5,982.70 | 27/04/2015 |
| 10 | 2542 | 3,145.50 | 6/03/2009 | 6,828.70 | 1/11/2007 |
| 15 | 3813 | 2,700.40 | 13/03/2003 | **6,828.70** | 1/11/2007 |

Source Data: Yahoo Finance AXJO

So from the data the following is revealed:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Years | Range | 0.382 | 0.500 | 0.618 | 0.382 | 0.500 | 0.618 |
| 1 | 1,217.40 | 465.05 | 608.70 | 752.35 | 5,517.65 | 5,374.00 | 5,230.35 |
| 2 | 1,217.40 | 465.05 | 608.70 | 752.35 | 5,517.65 | 5,374.00 | 5,230.35 |
| 3 | 1,326.70 | 506.80 | 663.35 | 819.90 | 5,475.90 | 5,319.35 | 5,162.80 |
| 5 | 2,118.80 | 809.38 | 1,059.40 | 1,309.42 | 5,173.32 | 4,923.30 | **4,673.28** |
| 10 | 3,683.20 | 1,406.98 | 1,841.60 | 2,276.22 | 5,421.72 | 4,987.10 | 4,552.48 |
| 15 | 4,128.30 | 1,577.01 | 2,064.15 | 2,551.29 | 5,251.69 | **4,764.55** | 4,277.41 |

Source: FOX Asset Management

What this shows me is that the bottom of the market is very close if you follow Fibonacci. Indeed the recent sell-off down to the **4,765** area was potentially a buying opportunity as it represents a 50% retracement of the 15 year traded range. A breach of this support could see the market test the 4,552 and potentially retrace back towards the 4,277 price level.

In looking at the bigger picture, a buy price target now would be between the 4,656 (preferably but we may not see this level) and 4,764 with strong support expected to emerge around the **4,656-73** area.

Whilst not an exact science it does give me a better perspective on where to expect buying to emerge however, there will also be stiff resistance on the way back up at the 5,162 to 5,230 area with a break of this level potentially see the market re-testing the 5,374 level.

A 10% market move for this year from here 4,880 would be 488 points or **5,368** on the topside and 4,392 on the base. A 15% market move would see **5,613** or 4,148. I am in the 5,613 camp with fingers and toes crossed.

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