



A LOOK AT THE CHARTS – APA and WPL

Today we take a technical look at 2 companies, the APA group Limited (ASX:APA) and Woodside Petroleum Limited (ASX:WPL).

APA Group Limited, which was one of our stock picks back in October 2013, has emerged with an interesting technical pattern known as “The Cup and Handle”.



This formation is a bullish continuation pattern made up of two components, the “cup” and the “handle”. The cup as shown above is formed by the consolidation of stock (called the “base”) over an extended period of time, followed by a second advance, which we call the “right lip”. As you will note in the above APA chart, the base has formed over a 9 month period which is strong validation of the support level by market participants.

The second component, the “handle” is formed after a retracement from the “right lip” where the price action resembles a handle on a tea cup. The handle itself can resemble a flag or a pennant, depending on the price action of the stock; in this instance we have a flag formation. Ideally, the handle should retrace to 1/3 of the length between the base of the cup and the right lip (second advance), which it has done so above. What we seek next from a technical perspective to confirm the continuation pattern is a move above the handles’ resistance, followed by a solid move in terms

of volume and price above the \$6.70 breakout line. The projected advance is calculated by adding the difference between the “base” of the cup and the “right lip” (second advance) to the breakout price level which in this case is $\$6.70 + ((\$6.70 - \$5.80) = \$0.90 \text{ cents}) = \underline{\$7.60 \text{ Target.}}$

At this level you essentially have three choices:

- Choice 1**- Take the risk (higher risk play) and preempt the move above the breakout line, benefiting from the lower entry price if the cup and handle formation plays out.
- Choice 2** - Await the confirmation of a move (lower risk play) above the breakout line on higher volume.
- Choice 3** - Do nothing, no risk, no gain, no loss (no risk play)

As a **Trader (short term holder)** who is likely to hold onto the stock for a shorter period of time it is far more rational to “stick to the rules” and await confirmation for the move above the breakout line. There is an ETO market available for APA, however it is very limited and far too illiquid to consider at this stage. A stock purchase would suffice but you would need to consider if the invested capital is sufficient to generate a decent return and compensate you for the risk.

On the other hand, given we continue to recommend APA as a long term hold due to its yield (5.5% projected) and growth aspects, we conclude as an **Investor (long term holder)** it is not unreasonable to adopt **Choice 1** and purchase the stock at today’s price level.

Woodside Petroleum Limited is another company we have followed for an extended period of time and recently took the risk of preempting a breakout above resistance at \$39.50.



The past few days have been significant enough to convince us we could be looking at a new trend forming in Woodside Petroleum. **Significant because, not since June 2011 when Woodside broke its support at \$39.50 has the stock moved back above the \$39.50 level.**

The stock has failed to move above the \$39.50 price level 5 times since August 2013 while each retracement from this price level has been met with lower lows forming what we call a “bullish pennant” formation ([blue lines](#)). Yesterday (16.04.2014), the stock closed above \$39.50 for the first time since 2011 at \$39.59, followed by today’s move closing on its high of \$40.00. The move comes as the company released its first quarter report for 2014 which the market interpreted as being an overall positive result.

We consider today’s move a breakout, with a short term price target of \$42.00. We ignore the lower volume today, given we are leading into the Easter weekend and instead focus on what we believe is far more significant signal, that being, the stock closed at its high of the day at \$40.00. A convincing increase in volume next week when the markets return and we will be convinced our longer term target of \$49.00 will come into play. For interest: the target price is calculated by the difference between the price level of the support broken in 2011 at \$39.50 and its low of \$30.00, being \$9.50 + the breakout price level of \$39.50 = \$49.00 price target.

A liquid ETO market exists for **Traders** with a high risk profile and we currently favor the WPLMAY \$42.00 Calls.

We remain a bullish on Woodside Petroleum from a long term perspective (as mentioned in the March 2014 newsletter), so if you currently do not hold a position in Woodside perhaps you may want to reconsider your position. If you do happen to hold it in your portfolio keep a close eye on how this plays out over the next few months.

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