

G'day investors!

Welcome to Wilma Wealth Management, I am White Green, your most trusted investment companion!

Today, the three major indices on the ASX took a significant tumble. What caused this sharp decline? How should we assess the future market outlook for the XJO index?

This morning, we engaged in stocks PLS and IEL. investors who received timely messages from my assistant this morning managed to achieve modest profits, despite today's overall market downturn. How should we evaluate the upcoming trends for these two stocks?

During today's trading session, I had discussions with some investors, and a common topic emerged: both PLS and IEL are heavily shorted stocks. The presence of this phenomenon has made some investors apprehensive about buying PLS and IEL during today's session. What does the short-selling phenomenon signify for market investors? How do market institutions interpret this phenomenon?

Tonight's session will primarily focus on discussing these issues with the investors. Interpreting the market from an institutional mindset and fostering the right investment thinking are crucial, as they will directly influence your investment decisions and ultimately, your investment outcomes.

Investors, are you ready?



This image is an intraday chart of the XJO index.

From the intraday chart of the XJO, we can see that today's market performance was particularly weak, with a clear downward trend in the XJO index. From an initial oscillating decline to the final close, the market's weak stance did not improve. The primary reason for the downturn can be traced back to a significant drop in the number of job advertisements in Australia in April, which highlighted the current pressures in the labour market and heightened concerns about the prospects for Australia's economic recovery. Additionally, rising living costs have also raised investor concerns about the potential negative impacts on retail sales and bank lending, which together prompted today's widespread market decline. On the trading floor, non-essential consumer goods, finance, real estate, and healthcare sectors saw the largest declines; sectors fell by more than 1%; energy, staples, and utilities sectors were the top gainers. A few days ago, I discussed with investors, like in the financial sector, coal and consumer fuels, healthcare sectors which had seen gains earlier, to be mindful of the risk of a short-term pullback. I wonder if investors have taken my advice and acted upon it.



This image is a daily chart of the XJO index.

Today, the index oscillated downward around the 7800 point mark. From a technical analysis perspective, today the S&P/ASX 200 index has fallen back near the MA55 moving average and then found support, showing signs of stopping the decline.

If the US stock market does not experience a significant decline tonight, then tomorrow the XJO index will enter a bottoming phase, and next week it will see a rebound in the market.

Additionally, even if the US stock market experiences a significant drop, we need not be overly concerned. This is because 7680 represents a stronger support level, as it is the bottom of the trading range and the average cost of a large amount of capital in the short term. Therefore,

even if the market worsens, the downside potential for the XJO index is very limited.

In conclusion, I am optimistic about next week's market. Therefore, for students who did not have the opportunity to buy PLS and IEL today, there will still be opportunities to buy tomorrow.

In today's discussion, some investors expressed the same concerns about the two stocks we bought today, PLS and IEL, mainly focusing on their high short-selling ratios.

Firstly, I am pleased that you have independent views and think about the market critically. In the investment market, it is essential to have your own investment thinking so that you can truly stand firm in the ocean of the financial markets.

However, what I want to share with the investors is that your views are only partially correct. Indeed, a high proportion of short-selling indicates that investors involved in short-selling are pessimistic about the short-term prospects of these stocks. Short-selling is a strategy where investors borrow shares and sell them, hoping to buy them back at a lower price in the future and return them, thereby making a profit. Typically, an increase in short-sellers is more based on the short-sellers' negative expectations of the company's fundamentals, industry trends, or macroeconomic conditions, or on a widespread market expectation of a short-term decline in the stock prices.

Yesterday, I discussed with friends the fundamentals of PLS and IEL stocks in detail, including their intrinsic value and future industry development expectations, providing a thorough explanation. There are no issues with the company fundamentals. This means that the occurrence of high short-selling is due to broad market expectations of shorting. Although a high ratio of short-selling usually indicates a negative market sentiment towards a stock, high short-selling does not necessarily mean that the stock price will inevitably fall.

I have always told our investors to maintain an institutional mindset because institutional investors often focus on long-term returns rather than short-term speculation. Today, let's discuss this phenomenon using an institutional mindset. The presence of high short-selling may be seen by institutions as a potential investment opportunity, primarily for the following reasons:

Short Covering

When the short interest in a stock is high, any positive news or financial reports that could cause a rebound in the stock price may trigger a massive short covering. In this scenario, investors who

originally shorted the stock, in order to avoid losses, will be forced to buy back shares to close their positions. This concentrated buying demand can drive up the stock price.

Contrarian Investment Strategy

Some institutional investors employ a contrarian investment strategy, entering the market when there is a general bearish sentiment, especially for companies whose fundamentals remain solid. They may use a high short interest ratio as a signal to enter, anticipating that a reversal in market sentiment will lead to profits.

Market Overreaction

Markets often overreact to certain information, and a high short interest ratio may reflect an overinterpretation of certain adverse factors. Institutional investors will analyze the company's fundamentals, and if they believe the market has overreacted, this presents an opportunity for them to establish or increase their long positions.

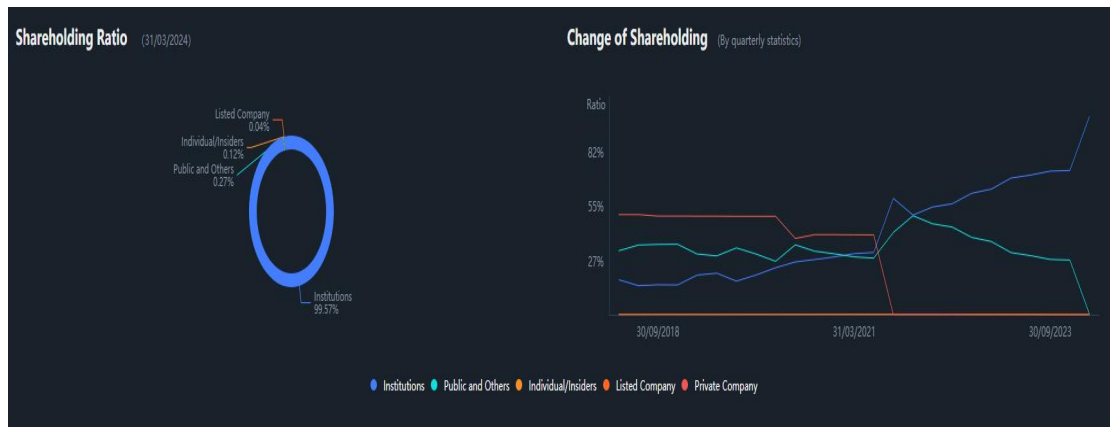
Fundamental Analysis

If a company's fundamentals (such as revenue growth, market expansion, cost control, etc.) remain strong, institutional investors may recognize its long-term value, rather than just the short-term market sentiment. The perspective of long-term investment may differ from that of short-term short-sellers.

Technical Analysis and Market Dynamics

Institutional investors will also use technical analysis to identify potential buying points. For instance, the stock price may stabilize and begin to rise after reaching a certain technical support level, especially in cases of high short interest, which may provide a lower-risk entry opportunity.

Therefore, when we invest in stocks, we cannot simply use one mindset to view the market; we need to learn to think from different perspectives. I have told friends that stock investing is an art of psychology and finance. This is because stock price movements are driven by capital, and behind the capital are the market investors. Thus, studying the psychology and behavior of market investors is equally important. investors, do you agree with my view?



This image shows the change in shareholding percentage of IEL.

From the chart, we can see that by the first quarter of this year, institutional investors' shareholding percentage has reached over 99%. There is an increasing number of institutional shareholdings, and stock chips are continually consolidating, including government pensions, investment banks, and some hedge funds, which have been steadily increasing their stakes recently. The ongoing accumulation by institutions indicates that institutional capital is very optimistic about the future prospects of IEL.



This image is the daily chart of PLS.

From the daily chart, we have observed that since the stock price hit a low of 3.1 AUD last year, it has shown a clear upward trend. Especially after the recent fall from a high of 4.58 AUD, a

characteristic "W" bottom pattern has formed, indicating a strong support around 4 AUD in the short term. Looking at the moving average indicators, we can see that the MA5 is at some distance from the MA13, technically called "divergence". When divergence occurs, two scenarios may arise: one is a downward adjustment of the stock price to bring the MA5 closer to the MA13; the other scenario is sideways consolidation, using time to compensate for space, allowing the MA13 to gradually move up closer to the MA5 through the consolidation. From today's trading, it is evident that institutions are adopting the second method; they do not want the stock price to fall too much and are using sideways consolidation to eliminate the technical "divergence" of the moving averages. Therefore, after this week's consolidation, next week's market performance of PLS is something to look forward to.



This image is from the weekly chart of IEL.

Observing the weekly chart of IEL, we can see that the stock price is currently in a downward channel. Recently, when the stock price touched the bottom support line of the downward channel, there were clear signs of a rebound. From the chart, we can see that each time the stock price approaches the bottom of the channel, the market provides support, which then drives the stock price to rebound to the upper boundary's pressure points of the channel. This type of price action is often viewed as a positive market signal. The stock price stabilizing near key support levels usually indicates buying interest entering the market, resisting further declines. Recently, the stock price has been consolidating in the 15.5 to 15.8 AUD range, yet it has not broken below this range, which historically is a repeatedly tested support point.

With the concentration of institutional chips in IEL and the continuous growth of the company's core business revenue, the current position of the stock price, combined with strong support below, presents an excellent market entry opportunity for investors who were unable to buy IEL in time today, with tomorrow still being a great opportunity to enter the market.

Tonight's discussion comes to an end, and I deeply appreciate the participation and enthusiastic discussions of all the investors. Before we conclude, I would like to leave everyone with a question to help us delve deeper into the content we discussed today:

How should we analyze and respond when there is a high level of short selling in a stock?

This question is designed to stimulate deep thinking about market dynamics. I hope everyone will ponder this question and continue our learning and discussions in tomorrow's finance class.

Investors, good night!