Press Clipping

Publication	:	Daily News & Analysis
Date	:	Monday, October 06, 2008
Edition	:	Mumbai
Page	:	25 (DNA Money)

Use bounce to reduce weak longs

Volatility ahead due to mismatch of short-term and medium-term trends

technicals

Shrikant Chouhan

In the last few months, there has been one common theme noticeable in all market-related magazines and television shows. It says now once the US turmoil is over, liquidity will return to the markets. However, experience says there is no direct correlation between liquidity and such crises.

Liquidity is always there in search of best investment options.

If the investment is available at a really attractive price, has strong bargaining power, and if growth is clearly visible in the long run, liquidity will chase the opportunity down without even a fraction of a second's delay.

The best example of this in recent times has been gold. Despite the bear market, gold prices have recovered beyond expectation.

In equity, too, if there is any strong expectation about an economic upswing in the near future, those who know the business well will certainly pump in liquidity. Such moves help form market bottoms.

So it would be better to stop talking about how liquidity will flow in and start tracking how the current economic cycle is taking shape.

It would be worth our while to try to find out the likely chances of a bottoming or an upswing. Once we work that out, we will automatically know when liquidity will enter the system.

Also, remember the market is efficient and we need to read it properly to know what big players are actually doing instead of guessing the likely outcome of an event.

This week, the markets will remain highly volatile due to a mismatch in the short-term and medium-term trends. The short-term trend seems to be highly oversold so that may lift the market if there is any positive outcome.

However, any rally in the short-term will be an opportunity to reduce the weakest long positions in the portfolio.

For traders, our advice is to watch out for shorting opportunity in select stocks or Nifty/Sensex only on a sharp reversal from higher levels or on the dismissal of major levels.

On the buying side, too, our strategy will remain the same: buy only if there is a sharp recovery from major levels or on the dismissal of resistance level.

The Nifty and the Sensex have their next major resistance at 3975 & 13000, respectively, and sustenance above it may lift them to 4110/4130 & 13550/13600 with minor resistance at 4010/13200.

Support exists at 3770/12400. Below that, the indices may fall to the March 2007 lower levels of 3550/11500.

For investors our advice is to invest gradually in index-parallel stocks at each 200-point decline on the Nifty with a long-term view in mind.

Monthly outlook: Technically, the current trend of the market is still weak as it has been forming lower tops and lower bottoms since January 2008 on a weekly basis.

This indicates that the bear phase is still alive. On a monthly basis, the market is following the bullish cycle between 4227 and 21206 (1292 and 6357 for the Nifty) to retrace on its way down.

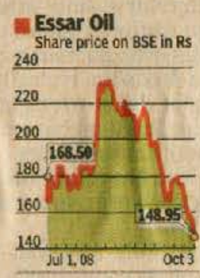
Since January 2008 to May 2008 the market has clearly refused to breach the 38% retracement level (in our view an excellent level to track) 14720/4420 on a monthly basis.

In contrast, after the dismissal of the level in June 2008 to till date i.e. September 2008, the market was unable to close above it on a monthly closing basis.

Currently, the market is surviving above 3800/12700 which is the 50% retracement level of the same cycle. In the current month, sustained trading below 3800/12700 may lead to further weakness and in that case the market may even fall to 3200/10700 level with a major support as per Wave Theory at 3450/11300.

A monthly close above 4420/14720 may negate the earlier view and we may see a sharp upward pull back to retrace the entire fall since January 2008.

Stocks to trade:

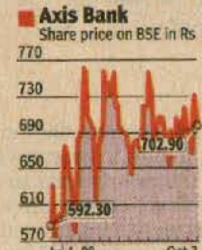


Essar Oil: (Sell) CMP: Rs 149

The stock has broken multiple supports at Rs 155 on daily and weekly closing basis. This indicates that now the stock is in the hands of bears that may push the stock to Rs 115 level in the medium term with a minor support at Rs 132.

Aggressive traders may sell at current levels Rs 145/149 with a tight stop loss above Rs 167. However, patient traders may look for a selling opportunity around Rs 153/155 levels with a tight stop-loss at Rs 167.

Axis Bank: (buy on declines) CMP: Rs 702



The stock is in rectangle consolidation and buying at lower boundary and selling at upper boundary may reward decent returns for patient traders in the near term.

As the overall trend is weak this stock may again come to Rs 665/655 levels around which, medium-term investors or positional traders can look for a buying opportunity with an upside target of Rs 735/745. Keep a final stop-loss at Rs 630 on a closing basis.

The author is vice-president, technical research, Kotak Securities