

# Is this the right time to BUY?

Last Diwali Nifty was trading at 6312 and one year later we are trading at 4870. We have corrected more than 20% from the top!

A lot of talk on air seems to suggest that we are trading at right valuations and some stocks have become cheap and should be bought! How far is this true? Let us see what the chart suggest...

Let us go back to history because history repeats itself. In the year 2008 we had seen the Nifty do a trend reversal price pattern called as a “HEAD and SHOULDER” price pattern. See figure 1.1



Figure 1.1

After this bearish pattern the markets tanked down and common investors lost a substantial amount. This should not repeat again. Hence the learning's are important.

## Learning's from the year 2008 “HEAD and SHOULDER” PRICE Pattern.

- 1) After we got a breakout of the trend reversal price pattern we rallied down for a few weeks.
- 2) Then the markets retraced the fall to a certain extent which is also called as a pullback rally.
- 3) This was the time when most of the analysts were suggesting that it was a good time to invest. But that was not to be. The market achieved the price pattern target in the next leg of the bear rally.
- 4) Did we rally back in a hurry? No, the bottom was made in October 2008 and we consolidated till March 2009, a good five months, after which we got a breakout of a “Double Bottom” trend reversal price pattern which gave us a “BUY” signal.
- 5) After we got this BUY signal technically, the Nifty rallied from a level of 2700 to hit the high of 6300 in a short span of 18 months.

- Thus, this proves the point that we need not pre-empt things to be in a hurry to buy just because we feel that the stocks have become cheap. We get enough time before the next bull rally.

NOW, let us look at the current situation. For the week ended 5<sup>th</sup> August 2011 the Nifty did a similar trend reversal price pattern called as “HEAD and SHOULDERS”. See figure 1.2 below.



Figure 1.2

What does the above trend reversal price pattern indicate?

- We are in a clear down trend.
- Price target would be equal to the distance from the top of the head and the vertical distance to the neckline, when subtracted from the intersection for the breakout candle and the neckline which works out to be around 4150 on the Nifty. Hence 4150 becomes the minimum possible target.

Therefore the next question that would come to your mind is – Will the Nifty go straight to the target? The experience of 2008 bear market tells us that we will get a pullback rally which will take the markets to 5200 in the best case scenario. This is exactly where we rallied to.

For the week ended 23<sup>rd</sup> September 2011, we have closed at 4867 on the Nifty. Hence the million dollar question is – where do we go from here?

- Technically speaking, I expect the markets to stabilize or consolidate between 4750 on the lower side and 5200 on the higher side.
- Technically, this consolidation will be nothing but a bearish continuation pattern in the making.
- The week when we close below this consolidation will mark the start of the next bear move which will take the markets to our above mentioned target.

- 4) Should we buy when we get near the target? No, we should not, because after such a big fall it will take time to absorb the disaster like we saw in the year 2009. We will surely get a trend reversal pattern after which we should buy, because ROI will be in our favour and you will not suffer the “Opportunity Cost”.
- 5) Is there a guarantee that this target will be achieved? To be very honest, there is no such guarantee. Having said this, the probability based on the pattern performance historically is very high. And if the markets have to change the trend it will surely do a trend reversal pattern. Also remember that the target mentioned above is the minimum possible target. We could go even lower! So, Arjuns need to follow the “BLUE LINE” as a trailing stop loss.
- 6) What should I do to make money in this Bear market? You will observe a lot of bearish continuation price patterns in the next leg of the fall. This will be your opportunity to mint money on stock specifics in the derivative segment. It has always been observed that the markets move up with the help of a stair case and move down with the help of an escalator!!!
- 7) Which are the sectors which will be beaten down? The sectors that look extremely weak are the ones which have participated in the fall till now. Yes, almost every sector will fall but the performers in this bear run would be the banking especially the PSU banks. The capital goods sector also looks very weak. Along with this the kings of the oil sector would also contribute to a large extent.
- 8) The sectors which would outperform the markets would be the FMCG and the Pharma. Cement sector needs to be kept on your radar since this is one sector which has outperformed this bear rally.

Hence, to conclude this might not be the best time to do bottom fishing or cherry picking. You need to be stock specific and follow the charts very closely. History has proved us that patience needs to be displayed for investments. Having said this, time has come that we understand the trend and ways to mint money. The derivative sector will be very exciting in the days to come.

**Never forget – “TREND IS YOUR FRIEND”.**

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