CRYSTAL BALL
Technical view of the month ahead

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WEALTH IS WAITING

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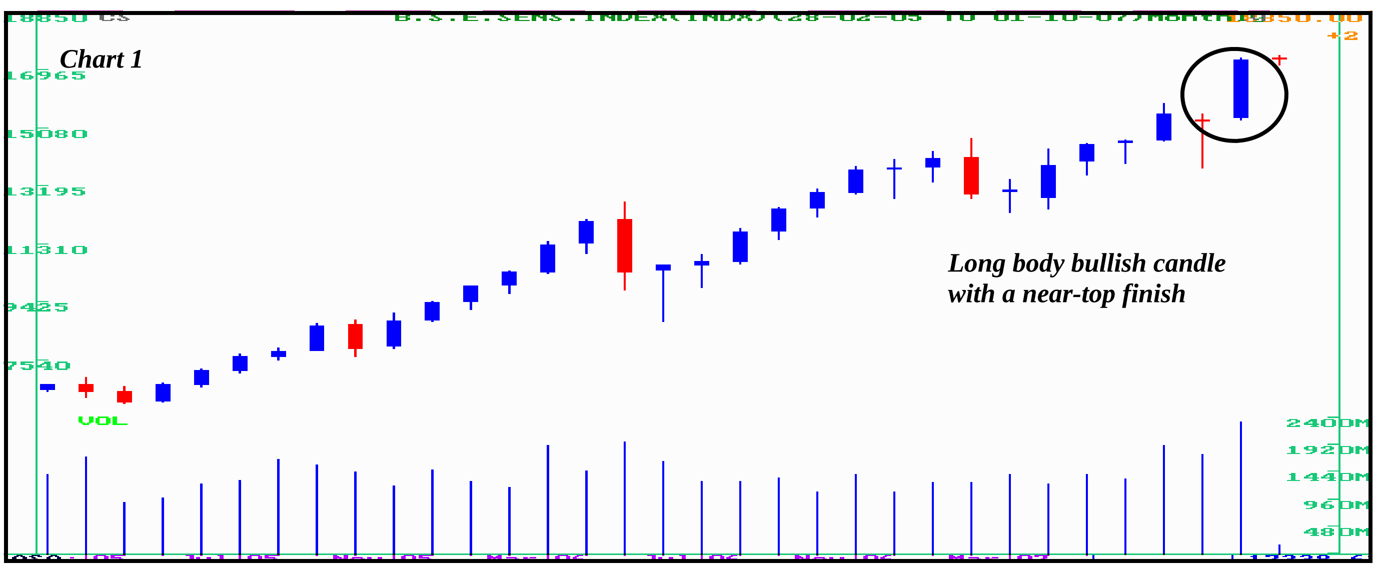
MARKET OUTLOOK

We had mentioned in the last month's letter that the trend remained bullish despite the Hanging man pattern of August. We were looking for the market to continue ahead and had suggested that dips should be used to buy. However, the market did not show any intent to decline and took off from where it stopped in August. It carried on gloriously thru the month, finishing with a superb 11% drive thru the month, making it one of the best in the current advancing series.

The candle pattern of the month is a long body bullish candle with a near-top finish. The trends of the month were bolstered by some sharp runs over the last 7-8 sessions. This happened after the Fed rate cut. Leading up to this event the market remained rather tentative and most traders appeared to have closed out their positions ahead of the Fed meet. But the strong response of the world markets to the rate cut came as quite a surprise and our market also responded with some gusto. The gap and the rise led to the Sensex showing the largest single day gain. The rise seems to have caught the bears unawares as there had been no signal that the market along with the rest of the world (and that includes Equities, commodities and Forex markets) would respond in the way they did. Most of them got badly mauled in the run up after the gap and the way the market progressed later seems to indicate that the bears were forced into an averaging game that proved very expensive in the end.

The F&O market expiry proved to be a short squeeze session as the index was pulled up into new



Source : ASA

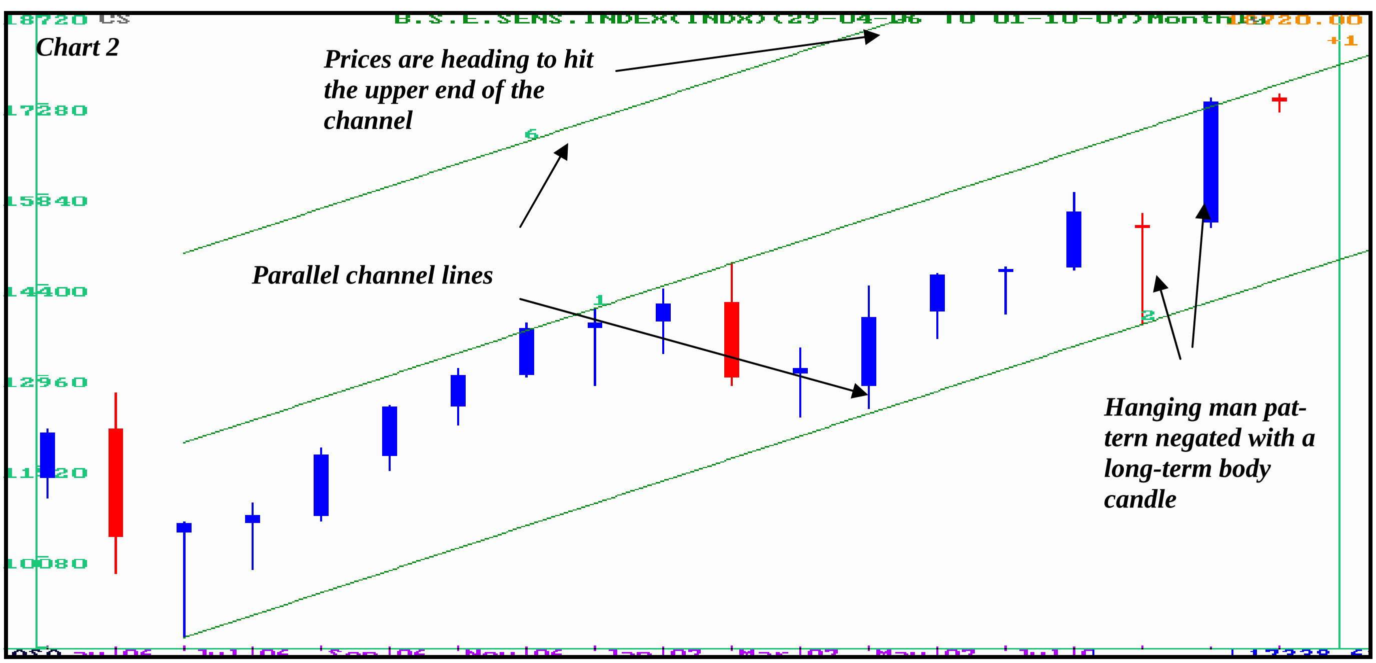
MARKET OUTLOOK Cont'd

highs. As the sensex topped 17000 levels, the sentiment got a further boost. This was followed by some short covering action in the Nifty which too moved to a new high beyond 5000 levels. What had seemed quite improbable only 15 days ago as the market hit the skids on sub prime and other worries, suddenly was at hand. Normally, we find a good co-relation between FII inflow and the movement of the indices. However, this time around it is interesting to note that during the last fortnight or so, the movement of the Nifty has been substantially higher even as the FII inflow has dipped. This is another confirmation that much of the rise could be on short covering action. But now that the short positions are all more or less squeezed out, the market should get back into a more "normal" routine.

Since there was near consensus about the effects of the Fed action, the markets have seen a good run. But now that some of the earlier whispered target zones of the indices are reached, chances are that the prices could now begin a phase of consolidation. For sure, there isn't much interest to sell. Hence that will ensure minimal price damage even if prices were to decline. Also, as long as the overall growth story is intact we will still have some good buying interest at the lows. We wrote a couple of months ago that, based on the Dow theory, we should be looking for a new signal of trend reversal before pronouncing the current uptrend dead. Since that is certainly not evident yet, we have to presume that the uptrend is still in progress.

However, that does not mean that the rise will carry on forever without interruption. Now that we will be entering the earnings season once again (should start around 11th Oct onwards) it seems more than likely that the market may choose to wait for this flow. Of course speculation about actual numbers will keep driving some of the stocks and that should keep the trends active.

Looking at the monthly chart (see chart 2) we find that the hanging man pattern has been negated with the long body candle for September. This candle now gives us 16250 (mid point of the long



Source: ASA

MARKET OUTLOOK Cont'd

body candle) and 15400 (low of the long body candle) as the immediate levels of support for the coming month. The March 07 decline ended with a hammer pattern on the monthly charts and 13070 is hammer body and The long-term trend line joining the lows of June 06 with the low of Aug 07 is placed at 14490 levels. In September, the index hit the parallel channel to this long-term support trend line and hence we are trading at a resistance (see chart 2). Since the channel line is sufficiently steep, if the move keeps up, then we should carry on towards 20650 where the channel exists for the month of October. Hence it is seen that there is sufficient room on the top side.

With the rise setting in once more, the momentum indicators have got some second wind. The RSI, though in a divergence status yet, pushed above the 80 levels at the end of the month. This is positive considering that the RSI situation in the daily as well as weekly charts is also quite robust. The ADX set up in all the three time frame charts is also quite positive. The DI lines on all the time frame charts are moving apart indicating that the trend is positive and becoming stronger. However, the ADX line is placed rather weak on weekly and daily charts and that is not too attractive a feature.

Summing up, price, pattern, momentum all show us that the ongoing uptrend is still strong and could be expected to continue. However the recent run has been rather torrid and has carried the indices to substantial new highs and done so in a very short period of time. This is prompting one consider that the market may be in a zone where, at least, some consolidations are possible. There are no evidences of reversals yet on the charts and hence we have to continue with a bullish bias. However, the lack of trend strength displayed by the ADX indicator as well as some of the other indicators are dictating that we should now be adopting a slightly cautious approach ahead. The support zones mentioned are therefore to be watched with particular attention if declines occur.

Source: ASA

SECTOR REVIEW

SECTOR INDEX	MTHLY CHG	CURR CLOSE	PREV CLOSE	MTHLY RANGE	RANGE %
BSE METAL INDEX	20.57	13945.39	11565.81	2603.24	18.67
BSE BANKEX INDEX	20.49	9469.26	7858.79	1601.52	16.91
BSE OIL & GAS INDEX	17.18	9561.95	8160.13	1748.18	18.28
BSE PSUS INDEX	15.60	8202.07	7095.44	1146.55	13.98
B.S.E.NATIONAL INDEX	14.12	8967.41	7857.61	1129.47	12.60
B.S.E. 200 INDEX	14.06	2118.86	1857.70	263.65	12.44
BSE 500 INDEX	13.84	6773.54	5950.11	826.46	12.20
CNX NIFTY JUNIOR	13.76	9820.90	8632.75	1180.10	12.02
BSE SMALL-CAP INDEX	12.90	9099.93	8060.52	1055.65	11.60
B.S.E.SENS.INDEX	12.88	17291.10	15318.60	2038.42	11.79
S&P CNX 500 INDEX	12.85	4188.55	3711.55	489.85	11.69
S&P CNX NIFTY INDEX	12.49	5021.35	4464.00	610.25	12.15
BSE MID-CAP INDEX	12.32	7422.43	6608.42	811.69	10.94
BSE CONS.DURABL INDX	11.75	4804.24	4299.00	590.15	12.28
BSE FMCG SECTOR INDX	9.49	2161.35	1973.93	209.71	9.70
BSE CAP.GOODS INDEX	9.35	14679.84	13424.74	1562.91	10.65
BSE HEALTHCARE INDEX	5.92	3784.21	3572.82	209.56	5.54
BSE TECK INDEX	3.84	3766.00	3626.58	346.35	9.20
BSE I.T. SECTOR INDX	0.92	4627.83	4585.66	422.65	9.13
CNX IT INDEX	-0.19	4804.20	4813.20	424.80	8.84

Every sector took part in the robust rise of the last month. This was inclusive of the Technology stocks which came to support the rise in the later part of the month. The breadth readings were positive and we had sharp moves on huge volumes. The best performers for the month of September were Realty, Metals, Banks, Oil & Gas. However, the dichotomy between large and mid cap stocks continued be maintained as market interest is more in the mid cap and the small caps then the front line ones. In the last issue, we had mentioned that small and mid cap names would witness good action among most of the sectors. Obliging our view, we saw lots of stocks producing strong rise on robust volumes and surprised most of market players too. We continue to be bullish here and recommend to ride the trend until there is any evidences of reversal.

Realty index clocked strong gains in the last month. The rise were contributed by the stocks like DLF, Unitech, Lanco Infra etc. The outlook on the sector is looking bullish ahead. Hence continue to be bullish here and look to buy on declines if any.

In the metal index, the major contributors were Sesa Goa, Sterlite, JSW Steel, Sail, Tisco etc. All of them continue to be placed in a bullish mode. Mid cap names like Ispat, Southern Iron, Sun flag Iron etc has in fact shown some brilliant moves on the higher degree chart. Investors should therefore retain long positions here in this sector as a whole and add on more on dips if any.

Banking sector was another smart mover for the month (20.46%). Here too the focus was major ally on the mid and small caps stocks rather then large caps ones in terms of percentages. Among those witnessing rapid gains apart from he main stocks were stocks like Indusind Bank,Kotak Mah Bank,UTI Bank, Andhra, Vijaya Karnataka Bank, UBI, BOI etc. Most of them are trading at new highs. With the momentum and volumes being strong enough investments in all these should be held despite of the high prices levels. The overall trend looks to be quite bullish

SECTOR REVIEW Cont'd

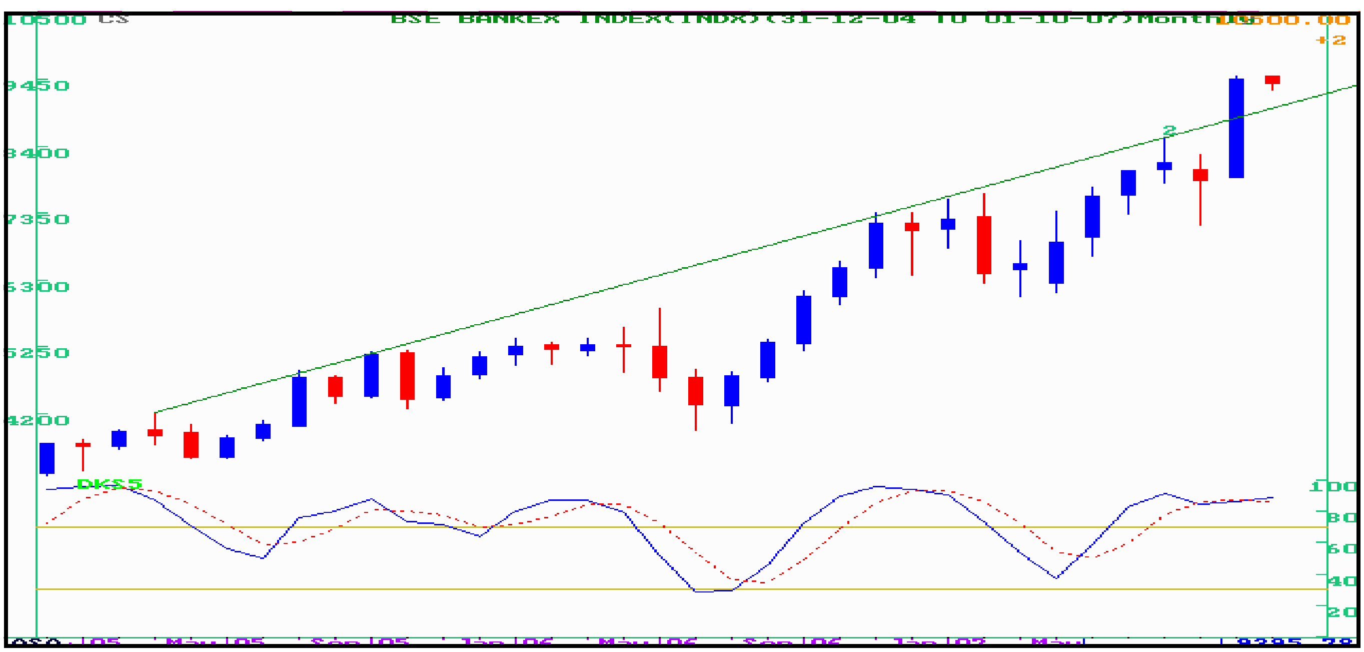
here and therefore those who have missed the bus can look to invest at current and on dips if any.

The rise in Oil & Gas sector was initially triggered by the strong moves seen in Reliance Group (amid frenzied trading), hitting newer highs. Later on, strong contributions by the stocks like Petronet LNG, MPRL, ONGC, GAIL etc further boosted the sentiment here and that led the sector to end its month with a net gain of 17.18%. These stocks has been on a relentless advance and shows no signs of wilting. Since it has run up a lot, one should avoid chasing the stocks and wait for dips for fresh investments.

The general laggards of the markets such as Auto, FMCG & Pharma fared smartly in the last month. It seems that current rise in the market has not been sector specific but broad based and that is healthy for the trend. Among them, Auto was the best where we see stocks from four wheelers contributing much better then the Two wheelers. Stocks which kept the flag flying are Maruti, Tata Motors, Mah & Mah, Ashok Leyland etc. With the interest being building up more here and charts showing bullishness, one should keep close track of these ones.

Pharma stocks which have been in a negative territory for last few months saw some action returning here. Looks like some buying have emerged here. Stocks which contributed here was Glemark, Ranbaxy, Elder & Divi's are the out performers. If the sector remains in a good shape in the coming month then look for these ones to be the front runners here.

Tech Index seems to have come down near an important supports on the charts. Some signs of revival was seen in the last month. Results are due in the current month and that would be a possible trigger if the sector have to launch fresh up trend here. Hence readers be alert here and if any reversal from the intermediate down trend is seen then immediately concentrate on the mid caps rather then the front liners.



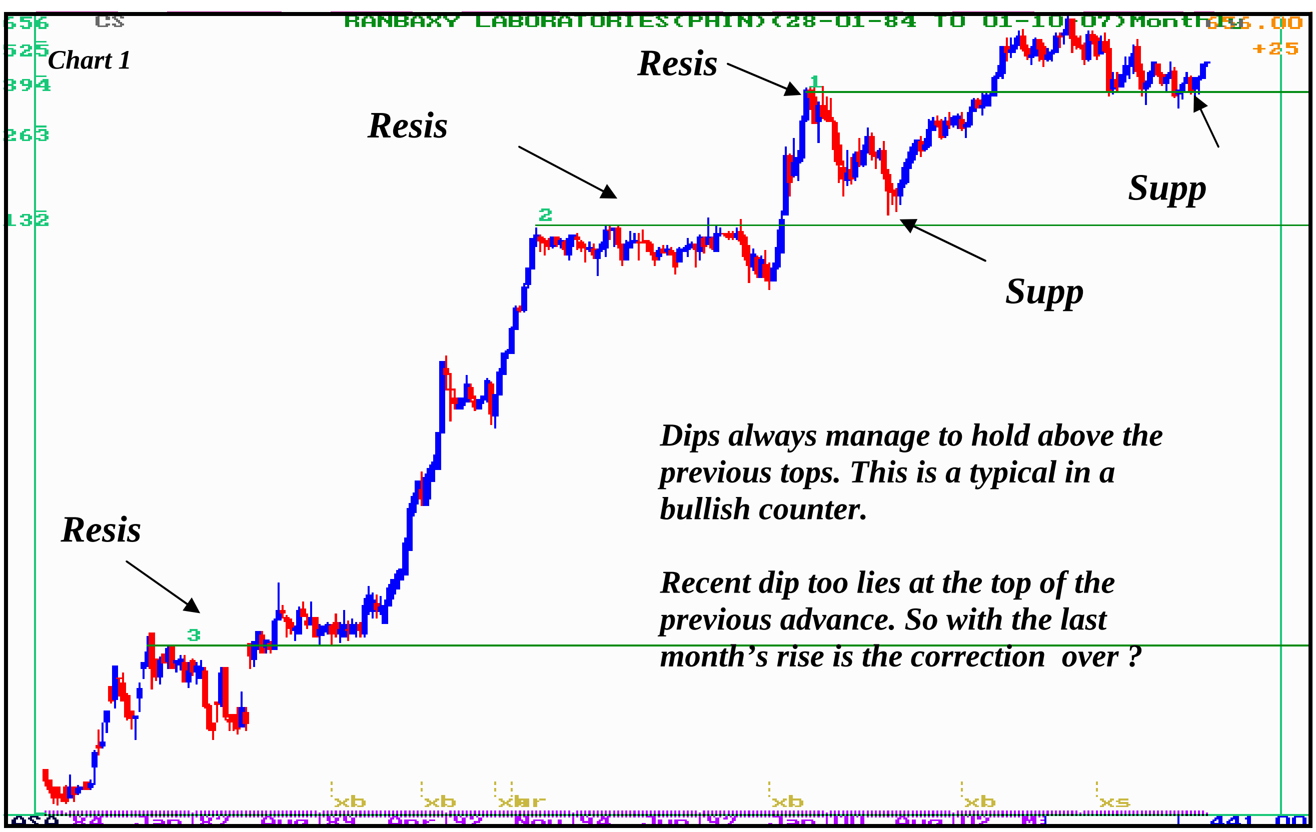
Source : ASA

STOCK VIEWS

LONG TERM INVESTMENT: RANBAXY (441)

Pharma counters seems to be getting into limelight in the recent sessions. Among them one of them that surprised everyone with its swift movements was Ranbaxy Labs. The news that company gets nod for USFDA to market Galantamine tablets, nod for carvedilol tablets and finally the news of company inking an exclusive in-licensing agreement with Sintex Medical to promote and market Sintex products seems to have brought positive interest in this counter.

The technical picture is evident in Chart 1 where we have highlighted log chart on the monthly timeframe. It clearly depicts that long-term picture is maintaining good health despite of intermediate corrective phase. Prices had been consistently forming higher tops and bottoms right from April 84, indicating that long-term trend is up. Notice that most of its declines managed to hold the support of its previous significant tops. This kind of prices action is very typical of bullish stocks. Recent drop seen from an all time high in December 2004 had brought the stock down to 340 in Oct 05 . Around this region, prices have fallen to the region of the prior top and hence the slide appears halted, as per the habit shown by the stock in the past. This bottom has been attempted to give away with its last few rounds of declines and has managed to hold so far by forming multiple lower shadows near the support. However on the higher side, prices were struggling to clear the Gann line resistance. With lots of positive news



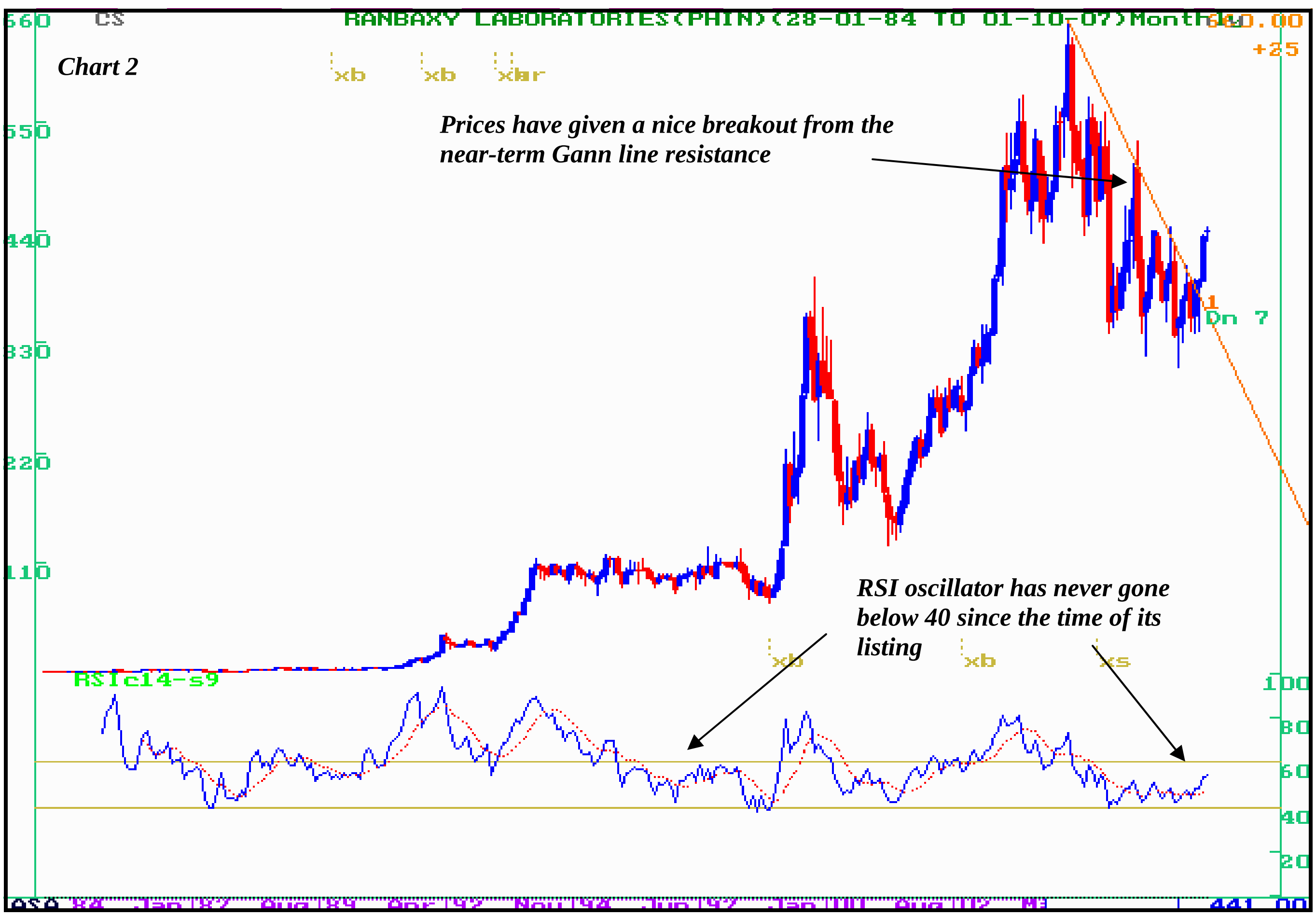
Source: ASA

STOCK VIEWS cont'd

coming in since last few months has brought about a rally. Giving the monthly closing above the said Gann line hurdle is an first indication of stock entering into a uptrend after making multiple tops near the supports (see chart 2). This is a positive sign.

The picture on the momentum oscillators is more interesting. In the chart notice that the RSI oscillator (blue line) has never gone below 40 since the time of its listing. The above setup on one of the trend- determining oscillator clearly indicates that the stock has never turned bearish despite of its wild declining swings. Hence every round of its major decline was an excellent buying opportunity for the investors. Since prices have now picked up from an important support zone and RSI rising from 40, it may be yet another buying opportunity for the investor. With values having retraced a good bit and news flow turning encouraging once again and the prices picking up from support zones, the situation seems ideal for a revival in the stock.

With fundamental news supportive, we recommend buying in this counter at current levels and on dips if any. To conclude, a phase or steady investment plan could be adopted to ensure that one buy this stock at regular intervals, secure in the knowledge that higher levels are being indicated. Look to stay invested for a target of 518.

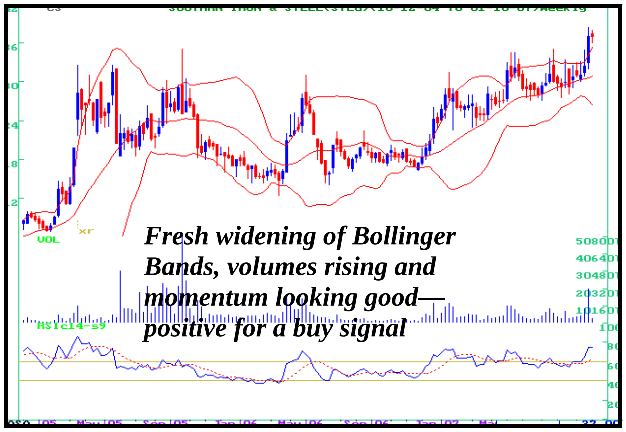


Source: ASA

TRADING PICKS FOR THE MONTH

SOUTHERN IRON (37):

Prices of this one for quite some time have been moving in wide ranges on short term trading activity and constant accumulation. Alongside we can see that the recent sessions had been gradually marching upward. This move has now successfully led prices to get out of the multiple prior tops and thereby breaking out of the accumulation phase to move higher. Volumes are large indicating active buying around the current levels and we can see that the Bollinger bands have widened afresh, signaling fresh advances ahead. Use current levels and dips if any to buy for targets 52-54 / 68-70. Stop 26.



Source ASA

WHIRLPOOL INDIA (45.55):

Whirlpool, manufacturer of refrigerators, washing machines and air conditioners, has been making excellent efforts to rally in the last few weeks. On the long term chart applied here we can see that we still have a long way to go. But the good part about the current move is that prices are on their way to complete an accumulation phase at 64. Breakout from here would propel prices to greater heights. Currently prices are seen resting atop the 61.8% retracement support of the phase. With the trend looking good, we expect prices to move up once again from here or from dips. Also RSI on the monthly chart has broken 60 after a long time. Buy for target of 62-64/ 89. Stop 34.

Source ASA

SHREYAS INTERMEDIATE (70.75):

This small cap company into dyes has been maintaining its uptrend quite well, holding support of the dynamic 70-period exponential moving average, as can be seen on the weekly chart alongside. However the higher bottoms being formed have not been able to form higher tops yet, as the prices are seen restricted by a strong level around 72-73 region. If this is breached, then we may see prices move further high. Momentum readings are good and the stock is in good form. Buy now for target of 85/ 96-99. Stop 59.

Source ASA

TRADING PICKS FOR THE MONTH cont'd

ALLAHABAD BANK (108.90):

One may have noticed that in our daily letters, we have been off late covering the bank stocks. This is because many of the bank counters, especially the public sector banks have been racing up on some active buying. This one being one amongst them, we saw prices rise sharply the whole of last month and continuing to look good even now. In the monthly chart appended alongside we have shown two trendline around 99 and 96 levels respectively. These had been restricting the upward movement of prices since quite a long time. Last months fantastic run finally managed to breach this region and move higher. However, as the run has been non stop last month, current month could witness some cooling off. Dips towards 99-97 should be looked at buying opportunities. Use current levels and dips to buy into this one for a target around 124/ 140. Stop 10 points.

Source ASA

SWAN MILLS (142.25):

Prices of this textile stock have been a complete rocket in the past few weeks, rising up sharply on aggressive buying activity. Once again, we have applied the weekly chart here. We can see a similar accumulation pattern formation and a subsequent breakout from the same, as we have seen in the last couple of recommendations given now. Prices have vaulted above multiple accumulation patterns signaling a fresh round of rise. Momentum is gung ho and is in step with prices. As the trend looks overstretched on the short term, dips may occur owing to profit booking at the highs. This dip however may be used as a buying opportunity, as all those who missed out buying earlier will want to get into this one at the dips. Therefore a dip towards 122-118 should be used to buy. Stop 114. Target 175-80 (pattern target) / 193.

Source ASA

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