



Mayhem Bears on prowl

The Impulse

'Life comes a full circle' is what we hear time and again and it is this repetitive law of nature that governs mankind and the stock markets we trade. It's hence classical to note that Sensex recovered from 14677 on the back of a bullish weekly bar and bullish inverted HNS formation since our last update 'Upside-Down' and now the same low remains threatened as the Sensex makes an extremely bearish key reversal weekly bar along with a bearish HNS formation nearing completion. It's the second month since our last bullish strategy update and the Index has given some breather in what has been a deep and painful correction; its fifth month running (and I am not afraid to say that it is expected to take still more time). This means that the relief rally is over and medium term bias falls back in accordance to our longer-term view, which says that a five-wave advance is already over and we are looking in for a larger correction down.

Key 2 reversals

The weekly chart alongside shows just that the bearish engulfing candle with exhaustion can be seen and the extent of damage it can do would definitely take us near the previous lows at 14677. The Sensex would now first head straight for 15300 levels, which is a critical support. A break below would accelerate this fall and targets can be pegged on the blue channel supports at 14500. If this support breaks a swift sell off on the falling white channel would take the Sensex to 14200-13800. The monthly swing low at 13779 would be the level to watch for thereafter.

Ugly Bears

The Bears are rearing their heads further and threatening real hard as suggested by the HNS pattern, which is forming, the pattern is still under way and far from complete but cannot be ignored outright. The implications would be serious once the pattern is complete and plays out, we will keep it posted in our later updates. The interesting part being that multiple momentum indicators are triggering sell readings indicating weakness and signaling an end to this relief rally.

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Five waves



Exhaustion



HNS



Best-Reversion

The mean reversion phenomenon can be seen at its best in the adjoining chart as we can see prices reversing from lower bands at 14677 within a larger move down to exactly the middle at 17700 odd. The reversal targets at lower bands stand at and revalidate targets at 14200.

Bottom line trade short as the move would be swift, hence act fast, trade wisely, don't hold longs (don't fall in love with the stock) and keep reversals shade above 18000. Moreover be a brave heart!.

Mean reversion



Months	Index returns (%)
May-98	-9.05
May-99	13.61
May-00	-1.89
May-01	3.65
May-02	-5.41
May-03	7.23
May-04	-21.06
May-05	8.86
May-06	-15.84
May-07	4.84
May-08	-3.68 ?

? till date

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