CRYSTAL BALL
Technical view of the month ahead

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WEALTH IS WAITING

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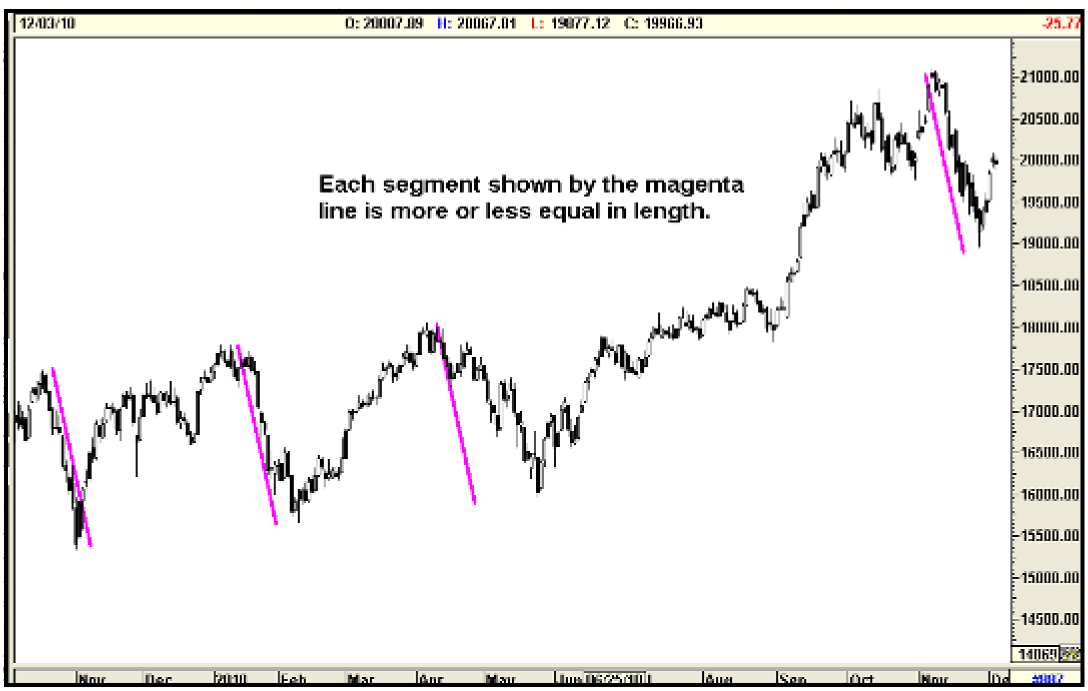
MARKET OUTLOOK

Inside this issue:

Our expectations for November were laid to the sword as the market did not move as per expectations. The high for the month was expected sometime around the 3rd week of the month but arrived much earlier, topping out on the 5th itself. From there, it was quite a downhill path. Even though November is not famous for creating lows, the index did re-trace decently, eking out its by-now-familiar 10% decline from the highs. In the past, readers may recall, we had mentioned about this propensity for the Nifty to show a move of about 630-odd points decline from the top. It did so on several occasions since Oct 09 and once again showed this pattern in the decline after Nov 5th. The prices dropped fast and sharp, hitting a low at 5727 from a new high at 6349 on the Nifty futures. Curiously, the spot indices failed to record all time new highs during November. This remains unexplained yet and one is a bit perplexed as to how to deal with it. This equal segmented moves are shown in the chart given below.

It is of course interesting to note that the market has managed to recover nicely (and completely) from each of the earlier occasions. Will it be the same this time also? No reason why it should not. The number of stocks from the Nifty that are still trading above their 200 dma on the day of the bottom (26 Nov) were higher at 28 compared to 23 stocks on 25



MARKET OUTLOOK Cont'd

May which was the previous bottom. However, it may also be mentioned here that the decline in May lasted much longer compared to the swift decline we had in November. So, are the numbers strictly comparable? Maybe not. But still, the fact that larger number of stocks are above their 200 dma should be significant, holding out hopes that we should improve from here once again.

Pointing towards that possibility is the nice picture on the weekly price charts. See below. The price decline has managed to hold at the level of the weekly support trendline and also shown a nice strong weekly candle. On the monthly charts however, we have a situation of the last two months (Oct and Nov) showing topping shadows. Since this has happened at the site of the all time high, we have to conclude that some selling is definitely come in. That is not surprising as previous highs always produce some selling (and that is how they become resistances anyway). It is therefore critical for December candle to be something a lot more positive. Only then can the bear-ishness created by the selling of the last 3-4 weeks be overcome. In the event Dec also develops tall upper shadow it would mean that the selling is continuing. So this is one of the elements for readers to track thru the month.

Another pointer towards the trends becoming positive once again is the set up in the weekly oscillator charts. This fact was mentioned in earlier letters too. Even the fast moving stochastic oscillator has not yet fallen beneath the mid point despite the 10% decline in prices. The ADX line has however terminated its advance on the weekly charts so that could be a signal of some consolidation forming now. But the DI lines continue to remain positively phased and that is seen in the monthly charts too. The RSI too is in good form, showing some potential positive reversal pattern on the weekly charts. But at the same time it is pertinent to mention here that the daily charts

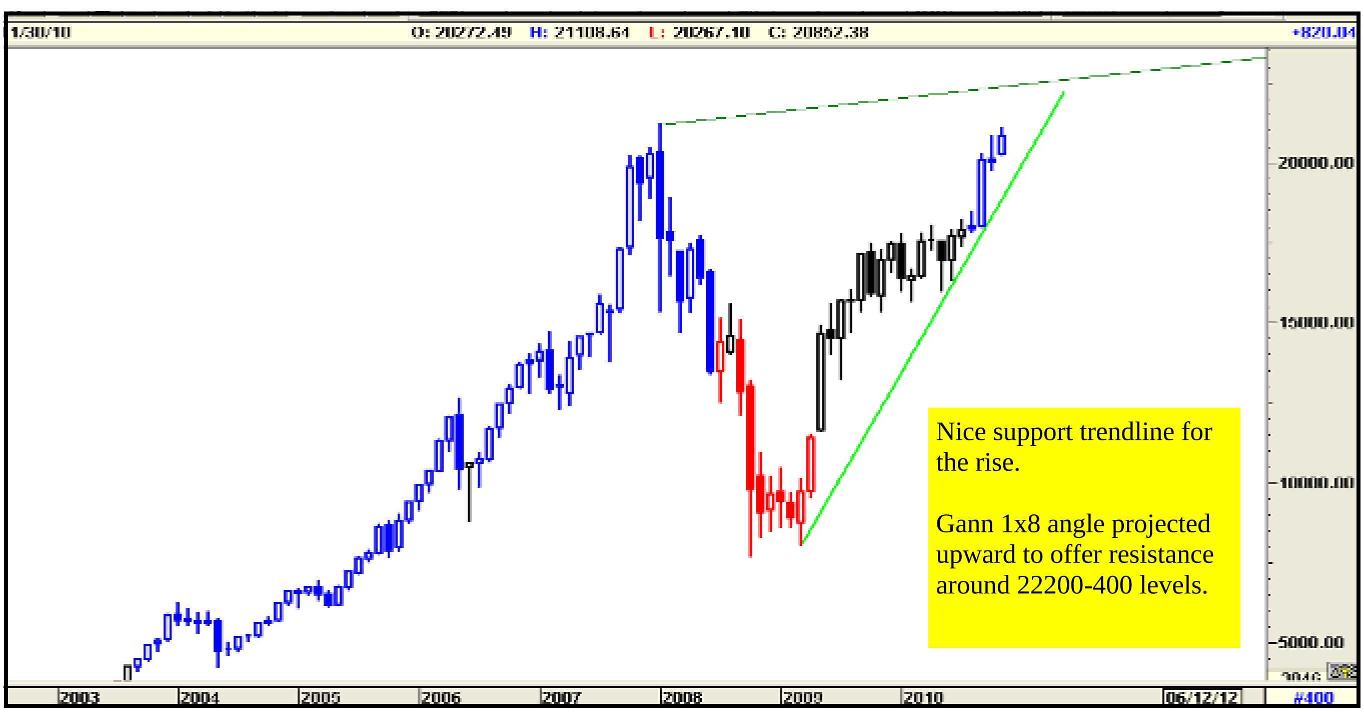
Source : Advanced GET

show negative reversal patterns too. So we have short term going up against the medium term here. That is pretty much the case with the other daily oscillators too. Hence it is possible that we may continue to see some more corrective action before the trend rights itself.

There are no immediate triggers for this month and only during the mid month we should see some Advance Tax numbers flow and that would tilt sentiments towards some stocks. Until then the market may remain sensitive to overseas triggers. The quaint thing about overseas triggers is that we are more likely to respond to the negative triggers than the positive triggers. Thus one should be ready for pullbacks on bad news rather than rallies on good news from overseas during the month. This could make for some volatility during the month. The key level on price for the month is around 6030 on the Nifty spot and if the index can stay above this level with some ease then we could see some positive trends for the month.

Expectations for December

Seasonal patterns for December suggest that we may have a mid month high to be followed by a dip into the end of the month. The 6000 level has the maximum amount of open interest in the options markets and this is suggestive of some fluctuations around this price point. We can expect market to be moving about 100 odd points on either side of this pivot for the month and for the range to be rather contracted. Volatility could increase post the 15th when stock specific news based on advance tax numbers begin to show up. Overseas price charts are not bearish but there are a few touch and go situations in some of the European stock indices. Asian indices are in good form and should remain firm. India should be positively impacted by these aspects and hence one can continue to retain a bullish bias on the market yet. Investor should use sharp declines this month, if any, to add to existing long positions. Traders on the other hand need to take a more proactive stand, using the expected volatility to their advantage. It may be time for more nimble footed players and those that are more languid in approach should better stay on the sidelines.



Source: ASA

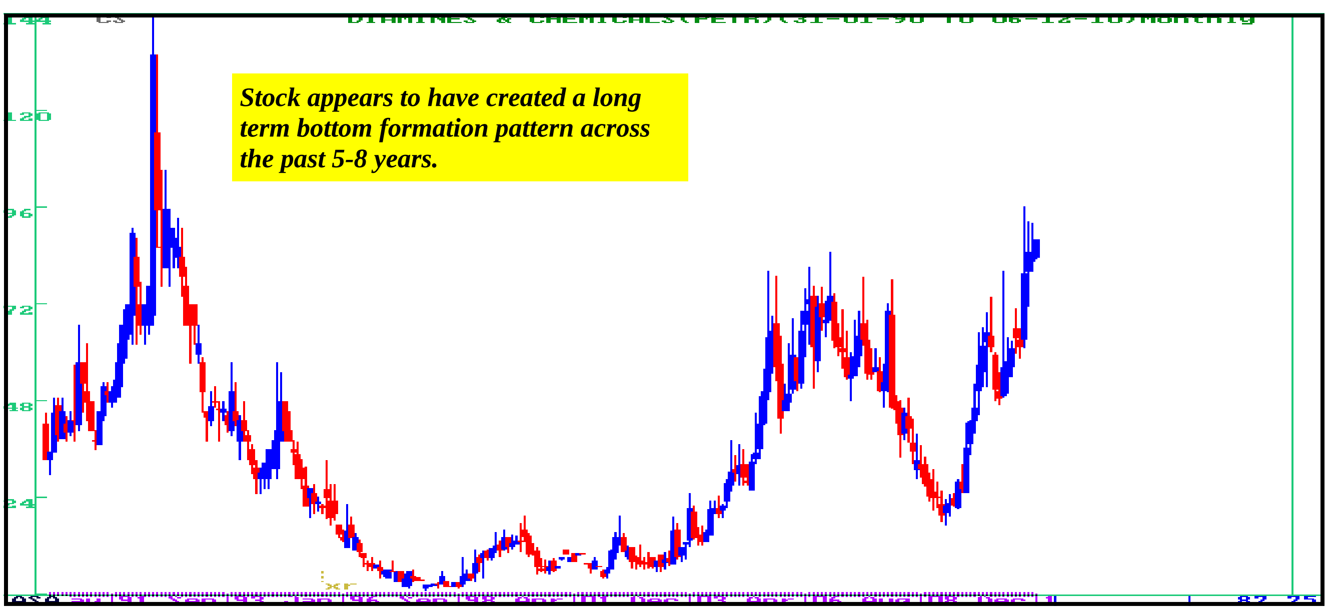
STOCK VIEWS

LONG TERM INVESTMENT: DIAMINES & CHEMICALS (87)

Diamines & Chemicals is a leading producer of ethylene amines in India . The company focuses its product mix on piperazine, used mainly in pharmaceuticals, agrochemical, lubricants, fuel additives, and other areas. It is the only indigenous manufacture and supplier of the piperazine range in India. In the recently declared H1 results, the company has shown a net that is almost equal to the profits made in the whole of the last year. Extrapolated, this should imply a possible EPS for the year at around Rs.25. This is a strong improvement in the numbers over the last couple of years.

This changed fortunes of the company seems to be reflecting in the prices of the stock and it has been moving up steadily, creating some good accumulation patterns in the process. A similar good pattern had formed a few years ago too but the attempt fizzled out as the market for the product tapered off. This led to the stock falling off from around 80 levels but succeeded in creating a higher bottom (with another nice rounding pattern) at a technically critical price level around 17. One can actually consider the two patterns formed as being an Eve and Adam bottom– one that usually signals a long term bottom. In the current rise the prices have managed to push above the previous swing high at 82-85 and are holding there, implying that buyers are willing to pay a premium above the previous levels. This also attests to the strong expectations about the future.

Post the recent good results, we expect more long term players to gravitate towards this stock and the volume pattern seems to be already suggesting this. The momentum indicators are all in good form be it the daily or weekly or monthly charts. This would also support the advance in the stock in the months ahead. The ADX line is on an ascent in the weekly as well as the monthly charts and the DI lines are also positively phased. This is not found in too many stock charts and can be considered a sign of strength.
We recommend readers to invest in the counter around the current levels as well as on dips to near 75 with a stop below 72. We can look for a target around 130-135 across the next 4-8 months. Further pattern completion can be expected around those levels and hence the stock can be reassessed for strength at that point of time.



Source: ASA

TRADING PICKS FOR THE MONTH

Cipla (369.80)

This pharma counter has been witnessing some active buying participation. After many an attempt at bullish trends, the stock seems to have finally established one at the end of the last week. Moving decisively past the previous swing highs, prices have recorded an all-time high.

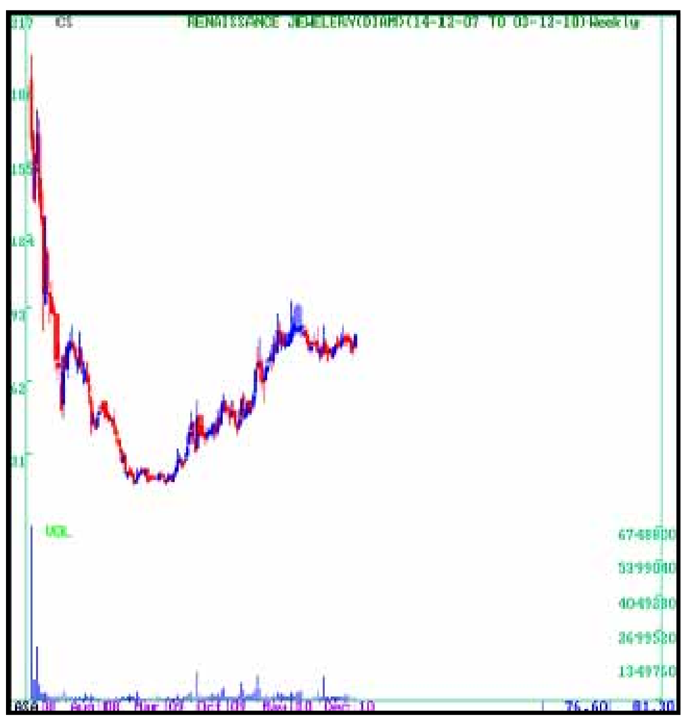
Any stock making such moves qualifies for a buy and since it is also doing it with some good momentum and volume support (sees arrows on chart), it is presumed that the rise will sustain. The RSI has inched above 60 levels suggesting that the bullish bias is getting stronger. Continuation of the move is an invitation to buy into the stock/ future at the current levels of 372 down till 363 with a stop below 360. A rise to around 440 can be expected across the next few weeks.

Source: ASA

Renaissance Jewel (82.45):

Renaissance Jewellery is engaged in the business of manufacturing studded jewelry. The weekly chart shows an excellent bullish pattern and prices have moved up steadily to the level of the previous swing tops near 80-85. After forming a base around 70 levels the buying participation is gathering momentum and alerting bullish bias in this counter.

This move looks to be completing a rounding pattern of sorts and currently a cup with handle formation is in progress. In the current week if we get some bullish follow thru in the form of prices managing to sustain above 84 levels, we can look at some short term plays in the stock. The recent swing low area near 71 can be kept as the nearest stop loss level and dips down to those areas can also be considered for a buy in case the upside breakout is delayed. One can expect a target of 95 to be achieved in the coming weeks and a move beyond could take it to 107-110.



Source: ASA

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