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FOR PRIVATE CIRCULATION

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Weekly Technical Update

Equities

The week past and expected

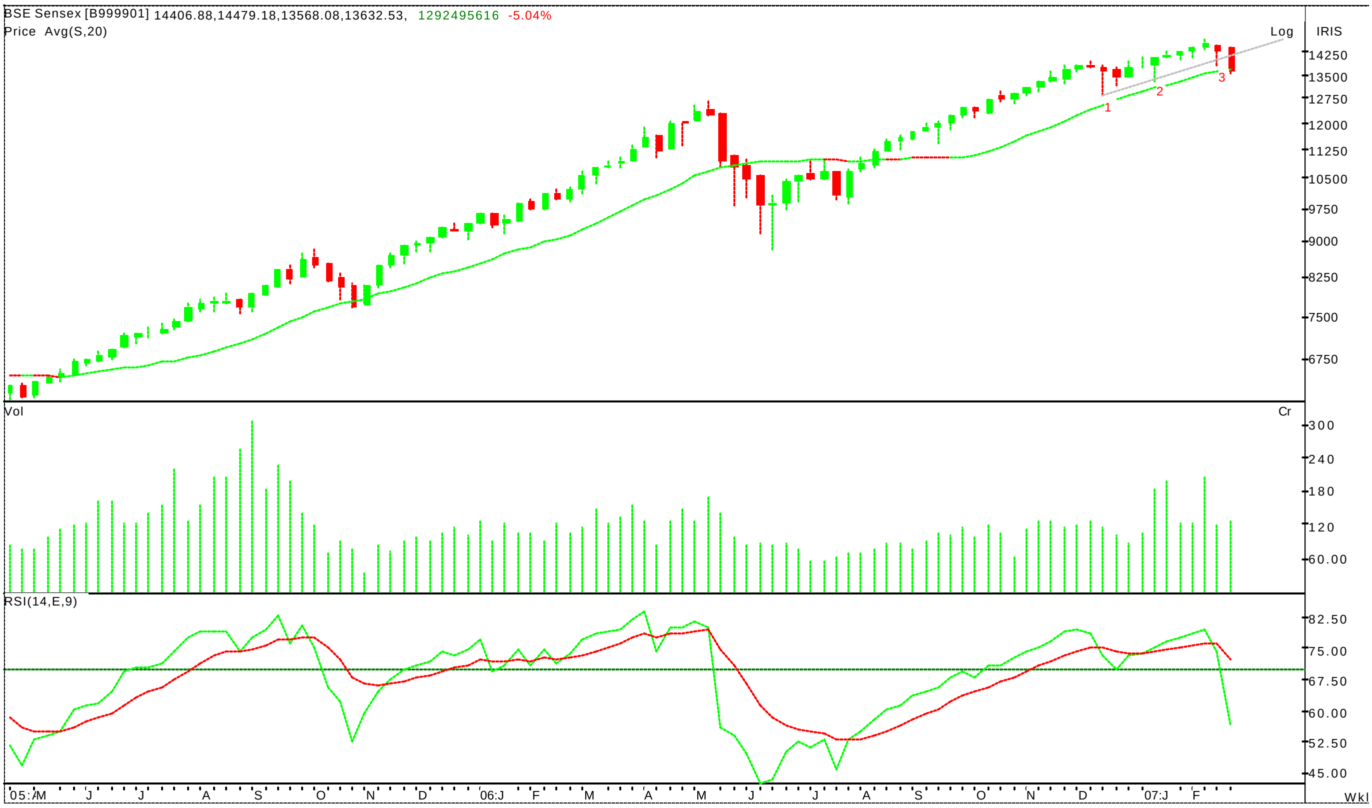
The market opened higher on Monday. It completed the final pull back to the bear rally between 14700 and 13800. The market was in a downtrend by breaking the major support of 14000/4000. Hence, we were a bit cautious and took the help of Fibonacci retracement ratios. We wanted to see if it holds at any level and bounces back or not. Also, we wanted to note whether it forms a higher bottom or not.

The market failed completely to succeed in any of the above conditions. As a result of this, it closed in a negative territory with losses of nearly 800 points on the Sensex and 200 points on the Nifty (The loss of 5% on both indices on a week-to-week basis).

Now we will see how technical analysis has helped us by preventing us from fresh/news purchases. It was the weakest formation on the weekly chart, the "Hanging man/Inverted hammer" at the top of the rally. This warned us again that the bulls tried to make the best out of the situation.

The bulls pulled the market sharply from lower levels but failed to close in a positive territory. This means the pending task was the to surpass the weekly highs of 14550/4200 in the last week in which they failed completely. These two reasons of 'intermediate downtrend and failure to breach weekly highs' have helped us in non-execution of any new positions and increased our conviction on technical analysis.

BSE SENSEX - WEEKLY CHART



According to weekly and daily charts, the market closed below the low of the previous week. It has closed below the 20 weeks simple moving average (SMA) even on a weekly closing basis. Also, maximum stocks have picked up in the intermediate downtrend. The volumes were below average on a weekly basis. This indicates poor buying depth, which may not hold the indices if market generates further sell off.

As it closed below the 20 weeks SMA, bears may not lose the current opportunity from 'reaching their lost levels of 12800/12700 (3700/3650 Nifty)'. However, on the other side, as bulls have lost the battle (according to Technical Analysis) ahead of major events like economy survey, Railway Budget and Union Budget they (intelligent bulls) may try to exit/reduce pending long positions at each upward pull back to face/ handle any unexpected/unforeseen events.

In brief, the indices have formed 'lower top lower bottom formation' (weak/bearish formation) on daily charts. Our strategy should be to reduce weak long positions or raise cash levels and search for buying put options on indices if any bounce back to the levels of 13900/14000 (4000/4040) takes place. Now the next buying/investment opportunity (with the medium-term view in mind) may arise in the range of 12800 and 12600 (3700/3650 Nifty). Buying in advance between these levels in mainline stocks may certainly yield decent returns to patient investors.

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