

Market Outlook

The Final Count...

The month of December witnessed high volatility and as mentioned in the November MOST Momentum issue, profit booking was seen near the 14,000 level of the Sensex. The 1200 points sharp fall from the high of 14,035 (4046) was noticed in just three trading sessions forming low at 12,802 (3658). In the current bull trend, the upward impulse movements alternate with corrections, both being very swift.

As per the Elliot Wave Theory, the move starting from 9875 (2878) on 24th July up to 14,035 (4046) on 6th December is termed as 3rd upward wave showing 4160 points uptrend and the current consolidation is 4th downward wave. After forming bottom of 12,802 (3658), the Sensex bounced back crossing 13,800 (3965) level that is more than 80% retracement of the entire fall. This is a typical characteristic of **Complex Correction Pattern**. In this pattern, a downward correction forms bottom followed by a fresh uptrend creating a new high. **The immediate target of the Sensex is 14,500 (4150) as per this pattern. A confirmation of the same will be when the market crosses the earlier high of 14035 (4046).**

After completion of the 4th corrective wave, a final 5th upward wave can be seen in the Sensex. **This uptrend is a final uptrend as this 5th internal wave is part of major 5th wave of Sensex as shown in the chart, where the intermediate top formation may be seen.** On daily chart, the On Balance Volume (OBV) indicator is showing positive divergence and RSI indicator has also turned upwards indicating uptrend to continue in the form of 5th upward wave.

Only a fall below 13,180 (3770) will signal a change in trend at the current market level of 13846 (3970). As the market moves higher, this level will also correspondingly move upward.

Actionable:

1. All existing long positions to be continued.
2. Fresh Long positions can be created in the buying zone of 13,700 - 13,400 (3940 - 3820) with target of 14,500 (4150) with appropriate stop loss in individual stocks.
3. Exit all buying positions if Sensex closes below 13,180 (3770).

(All the levels mentioned in the bracket are of Nifty Cash equivalent to Sensex levels)



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MOST

Momentum

A Technicals & Derivatives Newsletter

JANUARY 2007

TRADING THOUGHT

In investment, understanding is
more important than information

Strategy: The current phase of the Sensex is indicating the up-move to continue and may test a resistance level of 14,500 after breaching all time high level of 14,035. In this uptrend, Banking, IT, Paper and Pharma industries are expected to show better performance and one stock from each of these industries is recommended considering short - mid term prospects. The suggested stocks are still at lower levels and may outperform in the expected uptrend in the Sensex. These stocks are recommended with nearest stop loss and earlier resistance levels as exit targets.



ANDHRA BANK - BUY

From the high of Rs99, a sharp downtrend was seen forming low at Rs73. After this downtrend, the stock is showing trend reversal and moved upwards to test the high of Rs90 showing sideways movement between Rs90 and Rs84. The RSI is moving upwards on daily chart and bullish engulfing pattern is also seen on weekly chart. The stock can be bought near Rs88 level keeping stop loss of Rs83 and can expect to test the target of Rs100. The upward breakout can be seen if stock closes above Rs90 on daily chart.



BILT - BUY

The uptrend in the stock on weekly chart is seen from Rs83 to Rs127 showing 44 rupees gain. This uptrend is retraced almost 62% in the current downtrend forming low at Rs99. The stock is presently showing a bottoming out pattern and upward breakout in the stock can be seen if it closes above Rs112 on daily chart. One can buy the stock between Rs110 to Rs105 with the stop loss of Rs98 and target of Rs130.



GLAXO - BUY

After the high of Rs1308, the stock was in intermediate downtrend and formed a low at Rs1045. The heavy trading volumes are seen near this bottom level indicating accumulation phase, as Rs1050 is 62% retracement level of earlier rise. The price pattern and RSI on daily chart is indicating probable uptrend and the upward breakout can be seen above Rs1230 on closing basis. The stock is currently trading near Rs1150 and can be bought with stop loss of Rs1100 keeping a target of Rs1280.

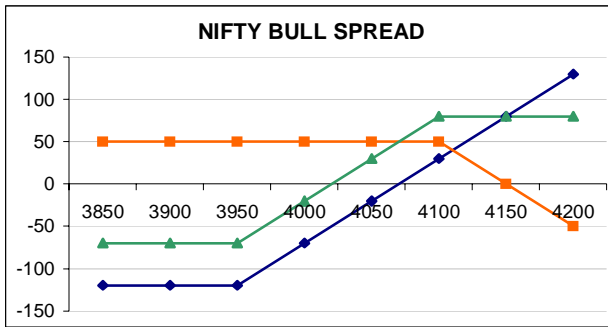


KPIT - BUY

In last 3 months, the stock exhibited 300 points uptrend from the low of Rs346 to the high of Rs655. After this uptrend, the stock is consolidating between Rs655 and Rs545 for last 8 weeks. The upward breakout can be seen if stock closes above Rs660 level on weekly basis. The stock can be bought at current levels with the stop loss of Rs590 with immediate target of Rs760. The RSI oscillator and On Balance Volume indicator is showing strength in the stock.

Profit Using Options

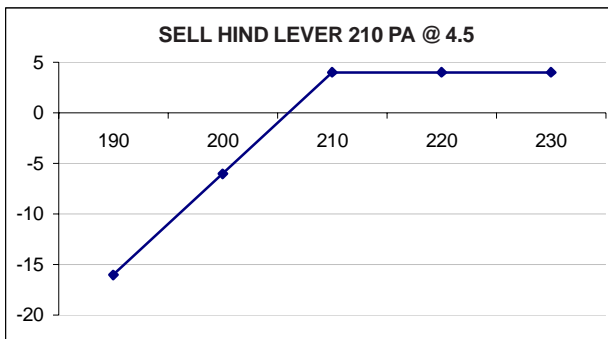
For the past few months we have been advising customers to use Options, so as to take advantage of the volatility in the market or an intra-month dip. In December, we had recommended the following option writing strategies viz. Buy Nifty 3850 CA & Sell Nifty 3950 CA, Buy Hindalco 180 CA, Buy Tata Steel 460 CA and Sell Tata Steel 490 CA, Buy Hindalco 180 CA and Sell Hindalco 190 CA and Sell ITC 180 PA. Together they have booked a loss of Rs11,229. Option strategies were a safeguard against the wild swings. Hence, we highly recommend use of these strategies for hedging your risks.



NIFTY

Nifty had sharp swings in the last month trading in the range of 3650-4030. We expect volatility to continue as third quarter results start coming in next month. We recommend a bull spread strategy buying in the money options and selling out of the money call options. The maximum loss would be Rs.70 and maximum profit of Rs.80 in the said strategy

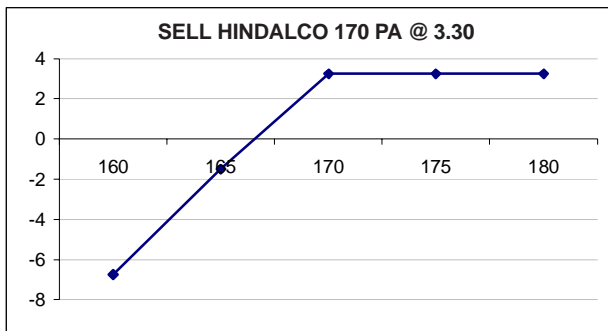
Strategy: BUY Nifty 3950 CE @ 120 and
SELL Nifty 4100 CE @ 50.



Hind Lever

The stock is trading in a band of Rs.220- 240 with full year results around the corner. As the stock has very limited downside from current levels we recommend writing put options and earn premium income.

Strategy: SELL Hind Lever 210 PA @ 4.5



HINDALCO

The stock is forming higher bottoms and higher tops; it has a strong support at Rs160-165 levels and has a limited downside from current levels. We recommend writing 170 put options and earn premium.

Strategy: SELL Hindalco 170 PA @ 3.30

The premiums mentioned above have been derived using the Black and Scholes method of option pricing. In the case of heavily traded options the Last Traded Prices as of 30th November 2006 have been used. The blue line represents the pay-off at expiry.



USE the OPTION

EARN Income on your **F&O*** Stock holdings

All you have to do is SMS MOSL <your client code> to 4646

* For DP holdings over 10 Lacs

Derivatives as on 28 December 2006

Name of the Stock	Lot Size	Buy/Sell	Reco. Date	C/F Price	First Reco.	
					Date	Price
HPCL	1300	BUY	28-Dec-06	275.0	30-Jan-06	313.0
Syndicate Bank	7600	BUY	28-Dec-06	75.0	3-Feb-06	93.0
Dr. Reddy	400	BUY	28-Dec-06	800.0	30-Oct-06	740.0

Cash Market as on 28 December 2006

Name of the Stock	Wtg. %	Buy/Sell	C/F Reco. Date	C/F Price	First Reco.	
					Date	Price
Amar Remedies	10	BUY	28-Dec-06	57.0	7-Feb-06	76
Helios Matheson	10	BUY	28-Dec-06	137.0	30-Dec-05	220
STC	10	BUY	28-Dec-06	149.0	25-Jan-06	184
Gujarat Alkalies	10	BUY	28-Dec-06	146.0	24-Apr-06	216
Morarjee Realty	10	BUY	28-Dec-06	612.0	6-Oct-06	570
Dena Bank	10	BUY	28-Dec-06	37.0	29-Nov-06	35
Cash	40					
Total	100					

The markets touched 14000 during the early part of the month. Thereafter it saw a steep decline of approximately 1200 points as a result of the RBI raising CRR rates and the IIP numbers coming lower than expected. Trading was volatile and the sensex moved up by 1% and the nifty moved up by 0.4% during the current month. The New Year holds great promise but would be largely be driven by fund flows from FIIs. The quarterly results and expectations from the budget would give a broad direction to the markets. Global factors like the US slowing, inflation etc would also have a strong bearing on the markets.

Our Cash & Derivatives Portfolio was up by 1.7% & 0.4% respectively. We have booked a profit of Rs 3,192 in our cash portfolio & profit of Rs 21,087 (including MTM) in the derivatives Portfolio during this month.

We have no additions in the Derivatives & Cash segment. We booked profits in Great Offshore, Ultra Tech, Parshvnath and Bombay Dyeing during the month.

We have booked profits in ONGC, Siemens, Satyam, Grasim, Wipro, Tata Motors (added in the same month) and REL from derivatives segment during the month.

Additions or deletions of stocks are being communicated through our morning conference calls, MOST Market Action emails or on 'AWACS' during Market hours.

MOST FOCUS

Scrip Name	MBP (Rs)	Scrip Name	MBP (Rs)
Navneet Publications	64	Taj GVK Hotels	240
Blue Star	190	Hindalco	175
Hero Honda	750	JSW Steel	350
Maruti	975	IOC	515
M&M	900	Bilt	125
IOB	130	GSK Pharma	1300
Andhra Bank	95	Pfizer	900
Kesoram	580	Jindal Saw	400
JP Associates	650	Man Industries	230
Tata Chemicals	270	NIIT Technologies	320
Era Construction	450	Infosys	2000
Tantia Construction	180	Helios Matheson	170
Pratibha Industries	250	Maharashtra Seamless	475
Genus Overseas	200	Ratnamani Metals	490
Goldiam International	140	Apollo Tyres	360

For further inputs on derivative strategies contact: Vikas Jain, (vikasj@motilaloswal.com) Tel.: +91 22 39804206.

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