LOOKING GLASS

Technical view for the week ahead

IDBI Paisabuilder.in

WEALTH IS WAITING

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Index Review:

CURRENT TECHNICAL SETUP

Intermediate support trend line: 18500

200 dma level: **18876 level broken on Friday**

Key swing levels : 20223 for resistance and for support 18429

Sensex Stocks above 200dma: 14 out of 30 (Down 4)

Gains/Loss for the week: 5475 Advances and 9283 Declines

In the last week's letter I had laid down two requirements for the market to satisfy in case bulls had to be back in the game. The market failed on both the counts. It broke thru the supports and during the rallies, it could not regain much of the lost territory. Both of these facets showed the hand of bears. We had seen in the last week itself how the bears had turned aggressive. They seem to have continued thru into this week and as a result we had just one positive session in the last 10 trading days! That goes to show the extent of control that the bears have established over the short term. Friday's price action was a clear indicator that the consolidation attempt made by bulls also came a -cropper. As a result, the weekly candle is a rather bearish one, carrying the index beneath the November low. This has also set the weekly swing to do down.

Now, the question is, whether this control is only over the short term or is that likely to extend further? Evidence that is piling up on the charts as well as outside it both indicate the distinct possibility of this being an intermediate term decline in the index. One of the confirming aspects to this conclusion is the set up in the Bank Index where clearly an intermediate term fall is in progress. Market was held aloft by a rise in the IT index but after the poor show from Infosys last week, even that island of comfort seems to be disappearing. Situation is not that bad in the IT index de-

Source : Advanced GET

Special points of interest:

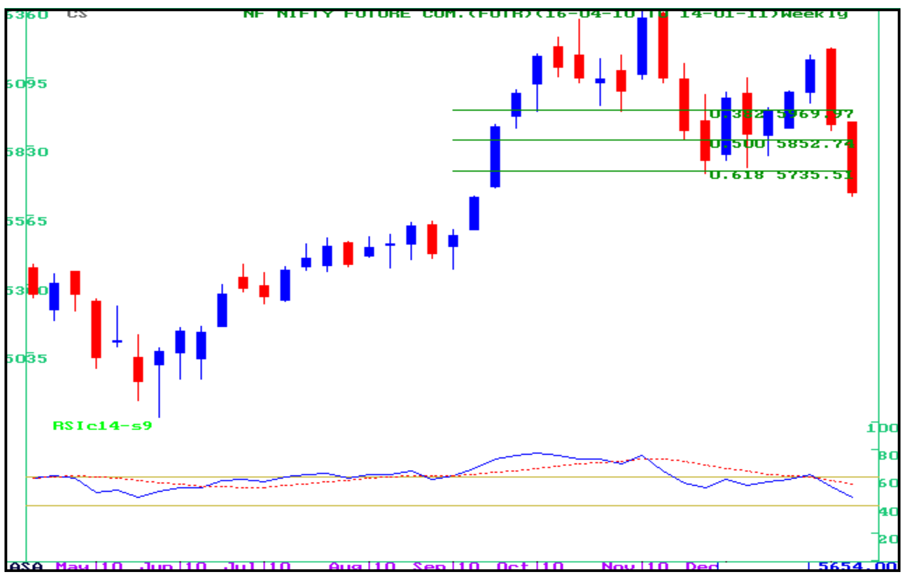
- *Sentiment is shredded with bulls not knowing what hit them. This may result in bulls remaining withdrawn in the coming week.*
- *Technical signals are on the verge of a breakdown in the short term. Hence the market has definitely put us all on notice with respect to the trend in the last week.*

Index review continued

spite the fall of the last several days but the bullishness is certainly punctured.

A change in character in the Nifty is beginning to manifest. Over the last year, all corrections in the Nifty were sharp legs down that lasted usually about 630 points or. Even during the current fall, the Nifty dropped 625 points and then rallied once again. So it appeared as though the pattern was still consistent. But the rally this time was shallow and stopped short of the previous high, making a lower top. Now the Nifty is declining again. Since no new highs have been made, it has to be presumed that the rally in the Nov-Dec period was only part of the pattern and not the whole pattern as was the case earlier. As of Friday, the Nifty had already declined about 550 points from the secondary top of 6200. A double-legged pattern from the highs would set a target around 70 points below last week's levels, giving us a target around 5580. If one measures a 50% retracement to the rise since the May 09 bottom, this also gives us a target zone around 5565. On the chart attached here also note that there are other price bands present near those targets. Hence it appears that we are seeing a cluster of supports for the Nifty around 5560-70 zones. On the sensex, this should translate to around 18550 or so. We have some time cycles coming up in the next week and perhaps we should see this support being hit early this week. In the event that the market were to rally – after all, we are into an oversold zone- then the bottom should probably form in the next time zone scheduled around the end of this month. We do have an event poised for the later part of the month in the form of the RBI meet on interest rates. This could be a more serious event compared to the two that we had last week (IIP and Infosys). Some rate hikes seems to be getting priced into the market currently and perhaps that may be the trigger producing the final low for this round of declines?

Where does on hide at such times if one has a portfolio? Well, for the larger players, IT and Fmcg as well as select pharma stocks still seem to be the only place to hide. All other sectors at the receiving end and many are already into intermediate term declines. There are a few sectors like Chemicals and Abrasives and possibly Fertilisers and Sugar where some new action seems to be visible and one could attempt to take a look for investing candidates there. But matters are difficult right now and do not really brook and easy solution at the moment.



Top *: Weekly NIFTY Futures Chart shows the breach of 61.8% retracement support from September 2010 low*

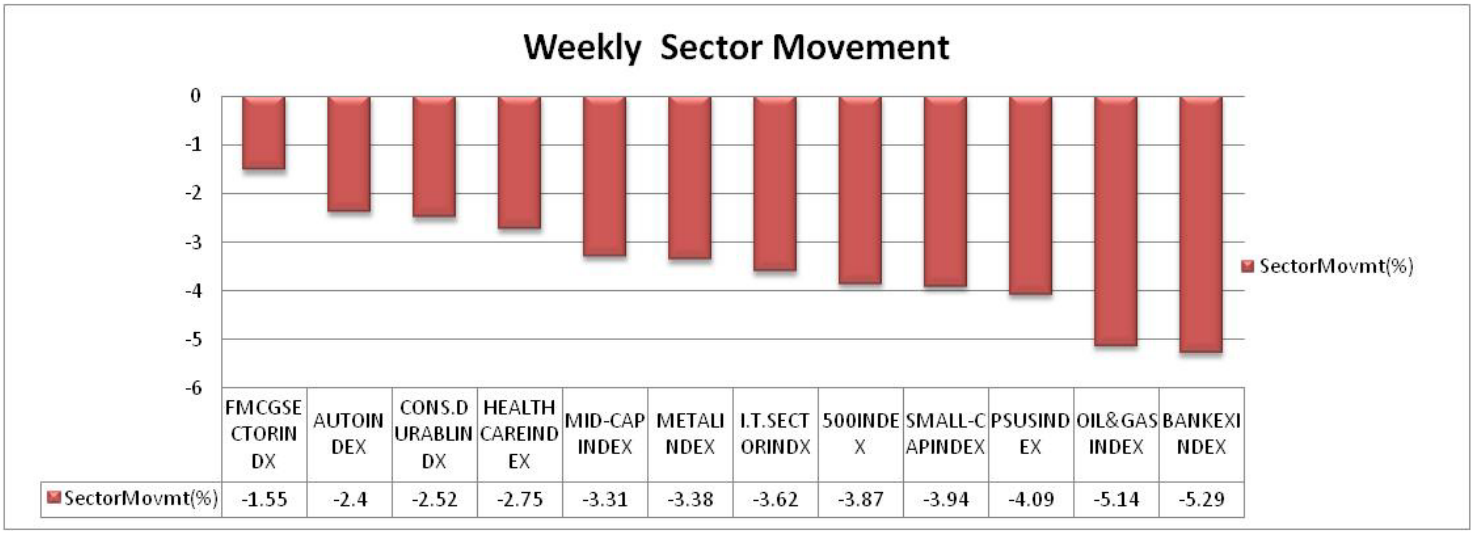
Index View: Conclusion and Strategy

Summing up, the bears extend their grip on the market further. Fear levels are higher as index fails to revive. News flow remained less than positive and is certainly not helping matters. The next big event is only in the week following this one and hence market may now choose to concentrate on corporate earnings flow. This can tip the balance on either side, depending on the flow. The excessive volatility of last week has caused problems for traders and many have chosen to move to the sidelines. The key to next week would be whether the institutional selling continues or not. The index has moved down into one of the supports offered by a gap created back in September 10. It remains to be seen whether this can hold the decline and send the market into a rally. It is touch and go time. Hence readers are advised not to be adventurous. Let the trend become a little clearer, once the volatility dies down. As the younger set these days say it, Just Chill.

Sector Index analysis: Sectors mowed down by FII selling

Bears took centrestage yet again last week, pulling the markets further down by more than 4%. In the last two weeks, the indices have witnessed a fall of nearly 9%, that is quite massive. Markets plunged on rising inflation, weak IIP numbers and rate hike fears. Further dampening the sentiment were weak global cues and disappointing Infosys Q3 numbers which were below estimates.

Sector performance has taken a mammoth hit as well. The fall was led by Cap Goods, which saw the maximum amount of fall, by over 5%, followed closely by most of the other sectors. All of them ended on a negative note. The sectors we had highlighted last week, like, Cap Goods, Cons Durable, Banking, PSU, Cap Goods, Realty etc were the most hit with the already damaged short term trend getting further hit. The trend in these sectors need to see some extensive repair work before considering fresh buys once again. Only aggressive day traders may consider using pullback from deep levels as trading opportunities. The impact of the last two weeks fall is comparatively much lesser in sectors like IT, Teck, Healthcare, FMCG etc. As already mentioned before, for buying opportunities, keep track of these sectors.



MEDIUM-TERM INVESTMENTS: REVIEW

The stocks recommended under this section has a maturity period of around 1-3 months.

Cosmo Films: (126.20)

We had recommended this counter during October 2010 as a buy at around 165-155 levels for a move towards 210-15 / 240 levels.

From the chart we see that since the recommendation prices made a swift move to highs of 187, to test prior high of 188 during early Nov 10 they topped out and plunged into a sharp corrective phase. Looking at the short term charts we see a massive fall but comparing this fall to the long term run we note that this has not really done much damage to the overall trend. On the weekly time frame we see prices have retraced about 50% of the rally from the March 09 lows. Around this region at 124-22, is also another strong support of a rising Gann line. This makes this region quite crucial and to be watch out for. Also we see that RSI has now come down to support near 40 and DI lines have closed the gap and are on the verge of a negative cross over. Now this would happen only if the above mentioned support gives way. Hence for those holding long positions, we suggest maintaining a trailing stop below 100.

Source : ASA

International Travel House Ltd. (210.20)

Recommended as a buy at 261 levels during our issue in Oct 2010, we had asked to buy for targets around 450.

Tracing the chart we see that prices moved up to highs of 316 end of that month after an excellent rally from lows of 48 in March 09. We see that this rally completed a lovely accumulation pattern at 262 levels and even managed to breakout from the same during end of the Oct 10, moving to highs of 316. Topping out there we see that prices later slipped into a corrective mode. This fall after making some efforts to survive, eventually broke below the crucial 24-period EMA support and with last weeks sharp fall, this region has now become an equally strong resistance to watch out for.

With last weeks close prices have now retraced 38% of the prior entire rally and are looking to halt the decline and move up afresh. Though some prior supports have given way to a further fall, the trend still continues to hold up and signals the possibility of a bounce back from lower levels. Continue to hold for our targets and one can also consider using this dips to buy into..

Source : ASA

SHORT-TERM INVESTMENTS

The stocks recommended under this section has a maturity period of around 1-3 months.

Harrisons Malayalam Ltd. : (88.95)

A recent decline in this tea & coffee counter got arrested in Dec'10, subsequent to discovering support at an ascending Gann line (from July'09 low). Since then we can observe that the stock is in an up trend.

Appended weekly chart reveals that the prices that were facing a stiff hurdle of 86 levels and 30 week EMA during recent past, was overcome during previous session suggesting that bulls are now regaining control over this counter. With this breakout assisted by spurt in volumes, it further indicates some aggressive built-up of long position. The momentum readings also have received fresh boost. As bulls are gripping this counter one can look to buy above 89, for targets around 97/101, keeping a stop below 83.

Madras Cements Ltd. (99.15)

From weekly chart we notice that the prices of this cement counter are now placed around 98 levels which seems to be a crucial support area and has proved it's significance in the past.

This level is also 50% retracement level of Mar'09 low and Jan'10 high, which may also help to arrest further fall in this counter. To add further an ascending Gann line (from Jan'10 low) is placed around the same region confirming our bullish view in this stock. RSI has fallen around 40 levels and from history we can make out that momentum has taken support of the same. With current chart setup indicating fresh investment opportunity we recommend our readers to buy this stock above 100 with a stop below 95 for a target of 109 / 113.

Source : ASA

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IDBI Capital Market Services Ltd.

IDBI Capital Market Services Ltd. (A wholly owned subsidiary of IDBI Ltd.)
Registered Office: 5th floor, Mafatlal Centre, Nariman Point, Mumbai - 400 021.
Phones (91-22) 6637 1212. Fax: (91-22) 2288 5850/60.