

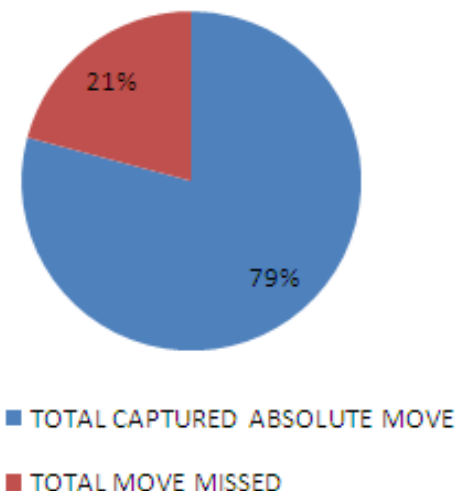
20 Jan 2010

# Waves.India does it again, delivers 79% accuracy

This is the third year in a row we have delivered above 70% accuracy. After we got the Mar 09 low, Tech Reversal, BSE metals buy, buy despite terror attacks, 79% accuracy should not surprise. Moreover, the move up from Mar 09 low till May 09 high was one way. We admit that the move from May 09 onwards was tricky. We have not witnessed such large corrective formations. Time is always new and original, there is never a same time, though it (time) could be similar. Despite the confusions around May 09, how did we come out unscathed? The rules are very simple. Never fall in love with a forecast and be fast to admit a mistake. The earlier we expect that market is doing something other than what we expect it do, faster we can understand the next intermediate trend. This approach helped us not to question the unrelenting rocket in technology. This kept us on the broader trend.

There is another thing we would like to mention. Markets have infinite alpha, if systems could trade every tick. But owing to liquidity, costs, slippages and effort, alpha seems finite. Markets were up 70% for the year, but one could have traded up legs and down legs and generated more than 70% net gains. The quest to gain more has a tradeoff. The more alpha one tries to generate, the more error prone the work gets. Behaviorologists don't agree that traders, fund managers, researchers can generate more than the market return. Last two years, we generated more than the net market returns. This time we targeted an absolute move of 83% and manage to capture 66%. This was the same as the market return.

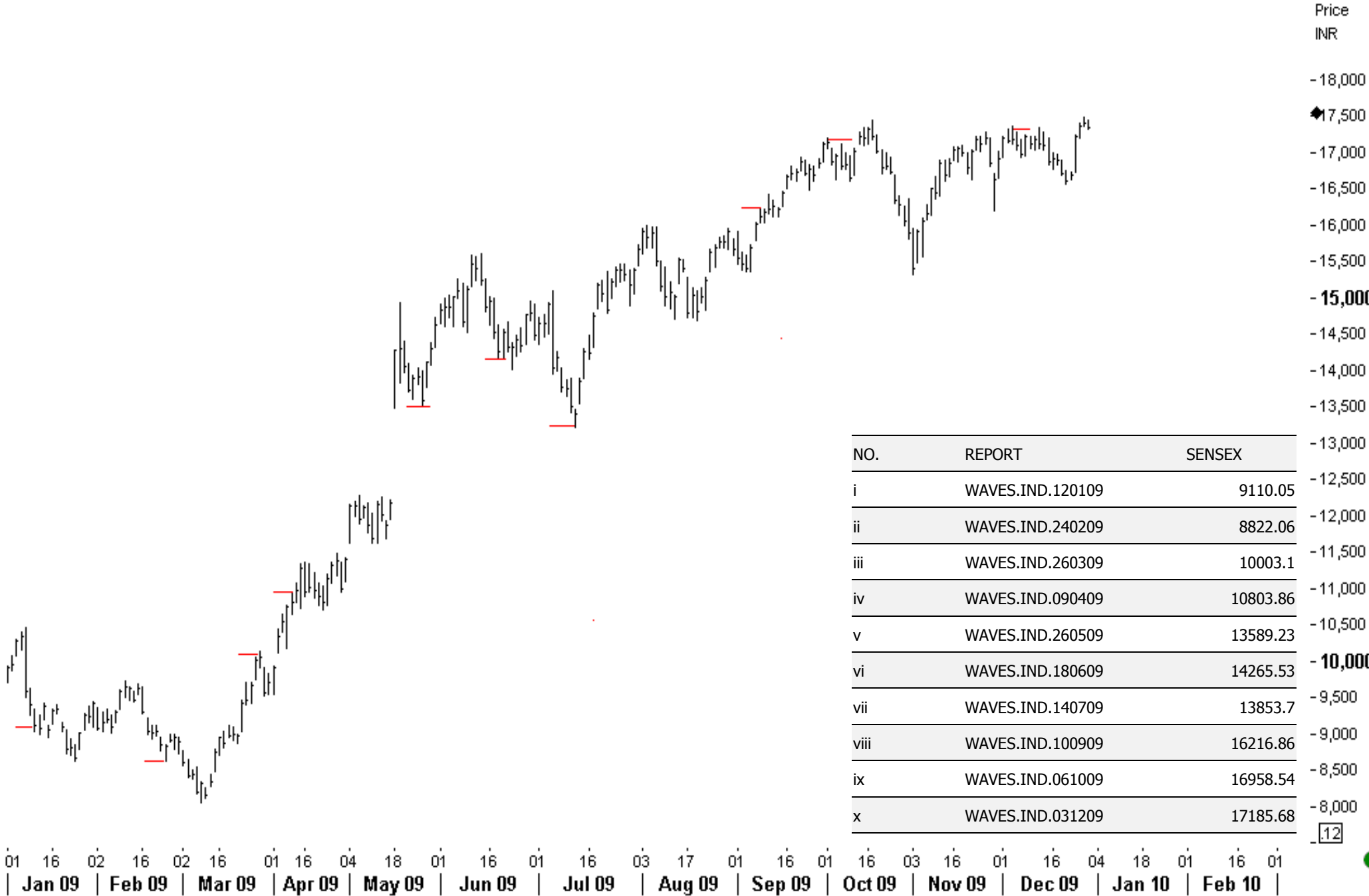
We have measured accuracy on intermediate time forecasts. All Waves India reports mention levels. It's the levels, which judge how accurate we are. We have pulled out the levels along with the trends and compared forecasted with actual. An average actual intermediate move was 8% large. The market letter captured average 5% of the 8% move. This gives us an accuracy of 79% for the year. We have detailed out the reports, the dates, the Sensex levels and have tabulated all of them in a tracker. Enjoy the India Accuracy report.



PARAMETERS	%
TOTAL ACTUAL ABSOLUTE MOVE	83%
AVERAGE ACTUAL MOVE	8%
LARGEST ACTUAL MOVE	26%
SMALLEST ACTUAL MOVE	1%
TOTAL CAPTURED ABSOLUTE MOVE	66%
AVERAGE CAPTURED MOVE	5%
LARGEST CAPTURED MOVE	20%
SMALLEST CAPTURED MOVE	1%
<b>ACCURACY</b>	<b>79%</b>

SIGNALS	NUMBER
NUMBER OF INTERMEDIATE SIGNALS	10
NUMBER OF MINOR SIGNALS	33
NUMBER OF INTERMEDIATE SIGNALS/MONTH	0.83
NUMBER OF MINOR SIGNALS/MONTH	2.75

# Intermediate Calls since start of the year



NO.	REPORT	SENSEX
i	WAVES.IND.120109	9110.05
ii	WAVES.IND.240209	8822.06
iii	WAVES.IND.260309	10003.1
iv	WAVES.IND.090409	10803.86
v	WAVES.IND.260509	13589.23
vi	WAVES.IND.180609	14265.53
vii	WAVES.IND.140709	13853.7
viii	WAVES.IND.100909	16216.86
ix	WAVES.IND.061009	16958.54
x	WAVES.IND.031209	17185.68

Price INR

-18,000

◆17,500

-17,000

-16,500

-16,000

-15,500

**-15,000**

-14,500

-14,000

-13,500

-13,000

-12,500

-12,000

-11,500

-11,000

-10,500

**-10,000**

-9,500

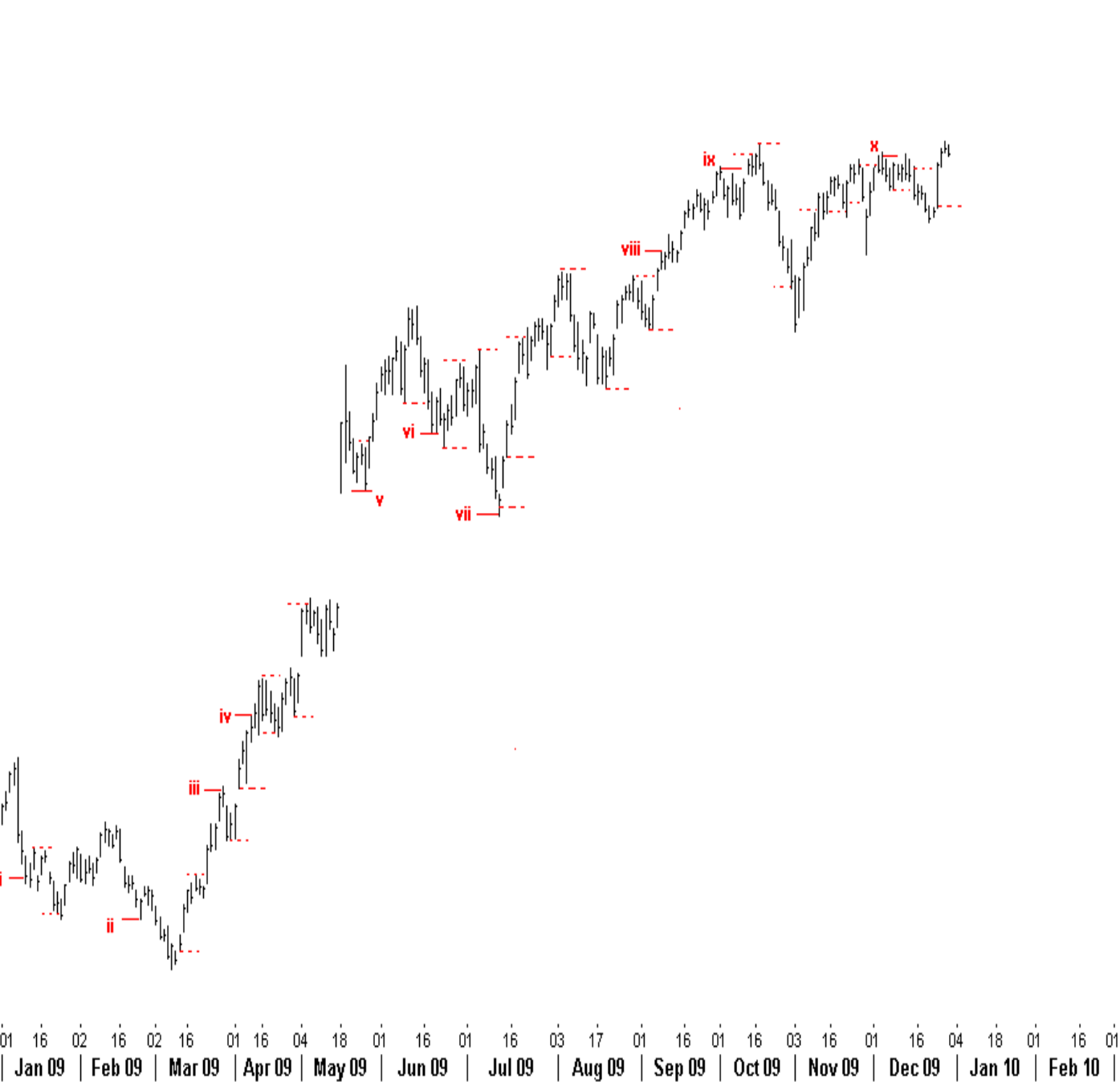
-9,000

-8,500

-8,000

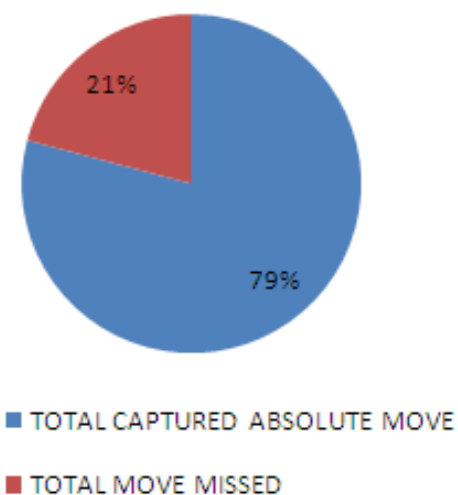
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# Intermediate and minor calls since start of the year



	NO.	REPORT	SENSEX
Price INR	i	WAVES.IND.120109	9110.05
	i-a	WAVES.IND.140109	9370.49
	i-b	WAVES.IND.220109	8813.84
-18,000	ii	WAVES.IND.240209	8822.06
	ii-a	WAVES.IND.120309	8343.75
17,500	ii-b	WAVES.IND.190309	9001.75
	iii	WAVES.IND.260309	10003.1
-17,000	iii-a	WAVES.IND.310309	9708.5
-16,500	iii-b	WAVES.IND.020409	10348.83
	iv	WAVES.IND.090409	10803.86
-16,000	iv-a	WAVES.IND.160409	10947.4
	iv-b	WAVES.IND.210409	10898.11
-15,500	iv-c	WAVES.IND.280409	11001.75
	iv-d	WAVES.IND.050509	12131.08
-15,000	v	WAVES.IND.260509	13589.23
-14,500	v-a	WAVES.IND.280509	14296.01
	v-b	WAVES.IND.090609	15127
-14,000	vi	WAVES.IND.180609	14265.53
-13,500	vi-a	WAVES.IND.230609	14324.01
	vi-b	WAVES.IND.300609	14493.84
-13,000	vi-c	WAVES.IND.070709	14170.45
	vii	WAVES.IND.140709	13853.7
-12,500	vii-a	WAVES.IND.160709	14250.25
	vii-b	WAVES.IND.210709	15062.49
-12,000	vii-c	WAVES.IND.280709	15331.94
	vii-d	WAVES.IND.300709	15387.96
-11,500	vii-e	WAVES.IND.040809	15830.98
	vii-f	WAVES.IND.010909	15551.19
-11,000	vii-g	WAVES.IND.030909	15398.33
	vii-h	WAVES.IND.080909	16123.67
-10,000	viii	WAVES.IND.100909	16216.86
	ix	WAVES.IND.061009	16958.54
-9,500	ix-a	WAVES.IND.151009	17195.2
	ix-b	WAVES.IND.201009	17223.01
-9,000	ix-c	WAVES.IND.291009	16052.72
	ix-d	WAVES.IND.101109	16440.56
-8,500	ix-e	WAVES.IND.191109	16785.65
	ix-f	WAVES.IND.261109	16854.93
-8,000	ix-g	WAVES.IND.011209	17198.27
	x	WAVES.IND.031209	17185.68
12	x-a	WAVES.IND.081209	17227.68
	x-b	WAVES.IND.151209	16877.16
	x-c	WAVES.IND.241209	17360.61

NUMBER	ACTUAL PRICE		CHANGE		TARGETED PRICE		FORECASTED		REPORT
	FROM	TILL	%		FROM	TILL	%		
1	9110.05	8822.06	-3%	3%	9100	8000	-12%	12%	WAVES.IND.120109
2	8822.06	10003.1	13%	13%	9000	10000	11%	11%	WAVES.IND.240209
3	10003.1	10803.86	8%	8%	10000	10500	5%	5%	WAVES.IND.260309
4	10803.86	13589.23	26%	26%	10800	13000	20%	20%	WAVES.IND.090409
5	13589.23	14265.53	5%	5%	13600	14000	3%	3%	WAVES.IND.260509
6	14265.53	13853.7	-3%	3%	14300	14000	-2%	2%	WAVES.IND.180609
7	13853.7	16216.86	17%	17%	14000	15000	7%	7%	WAVES.IND.140709
8	16216.86	16958.54	5%	5%	16200	16500	2%	2%	WAVES.IND.100909
9	16958.54	17185.68	1%	1%	17000	17200	1%	1%	WAVES.IND.061009
10	17185.68	17464.81	2%	2%	17200	17500	2%	2%	WAVES.IND.031209



**PARAMETERS** **%**

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# Orpheus India Outlook 2010

**Absolutely speaking India is in trading range for 2 more years, relatively speaking it's time to shift allocations.**

It's the time of the year, where we account for what we got right and where we were off mark. This is what we said in our annual [outlook in Jan 2009](#) and what happened.

*Anticipated – 'We won't be surprised if prices retest October lows or breach them marginally in early Q2, 2009. And this means selective stock picking and minimizing market exposure by doing quantitative long short strategies. 13,000-15,000 is an achievable high for Sensex in 2009.'*

Happened – Sensex touched 15,521 in Jun 09 and now prices are 16% above 15,000. The Oct 09 low 7,699 was tested marginally in Mar 09 at 8,047.

*Anticipated -'BSE Metals was the worst performing sector of the year at -72 returns. We expect it to deliver better returns'*

Happened – BSEMETALS was up 339%

*Anticipated -'Long BSE500 and short Sensex also seems an attractive pair'*

Happened – The pair was up 14% till date from Mar lows, up 5% from Mar – Jun 09.

*Anticipated – 'Don't get too much into the negative mode despite all crisis talk.'*

Happened – Assets moved up 100% to 300% after Mumbai attacks. You can't say we did not try to convince you. We wrote on 'History, markets and terror' explaining why the Mumbai attacks didn't happen at a market top. We wrote 'Russia Oil and the Global low'.

Anticipated -'The expected bounce should be choppy and time consuming.'

The markets rose clearly from Mar to Jun and then got into choppy sideways action.

*Anticipated – ['The tech reversal – 26 Jan 09'](#)*

Happened – Technology reversed and pushed up 191%.

## **Where we got it wrong**

[24 July in our half year outlook](#) we said

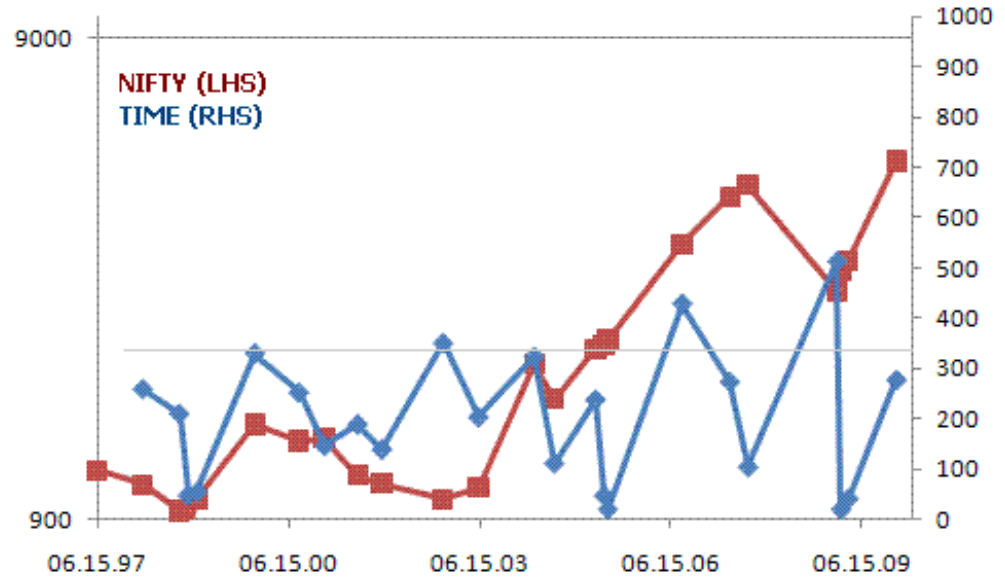
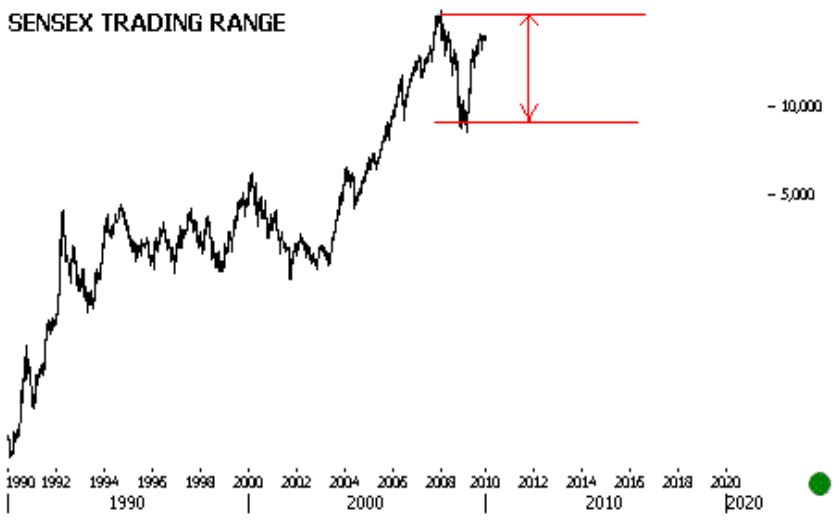
*Anticipated -'We repeat the best of 2009 is nearly over and any upside from here should barely reach double digits (less than 10%) for the 12 indices we discussed above'*

Happened – Though BSEOIL, BSEFMCG, BSERIAL, BSEPOWER did not cross 10% gains since 24 July high. The rest of the nine indices broke the 10% barrier. On average all sector indices registered 19% gains since 24 July.

Though we said the expected bounce should be choppy and time consuming, there were sectors and indices that grew without a pause like CNXIT.

'Performance cycles' is a term coined by us at Orpheus. This is another name for time triads, time arbitrage, time fractals but expressed in terms of relative performance. It's a bounded oscillator that moves in a fixed range say 1-30. 1 is top relative performance and 30 is worst performance. The idea is that performance is cyclical. A top performer will underperform in future and vice versa. A top relative performer is also the worst value pick and the top relative underperformer is the best value pick. We have carried the quarterly Numeric Ranking for Nifty 50.

Top performers for Q1 2010 – Reliance Infrastructure, Grasim, Reliance Com, Bharti, Reliance, L&T, Jaia, Dlf, Idea, Ambuja, Reliance Cap, Reliance Power, Suzlon, Unitech, ABB. The top underperformers for Q1 2010 are Punjab National Bank, Jindal Steel, Cipla, TCS, Tata Motors, Wipro, Ranbaxy, Tisco, HDFC Bank, SBI, SUN, M&M, Infosys, GAIL, and SAIL. The passive way of investing using performance cycles assumes that you have 30 stocks with 10,000 Euros each in the 30 stocks. Now you close the top underperformers and reinvest the cash proceeds into the top performers. The active way to play on performance cycles is to go long top performers and short top underperformers. This would need pairs, value hedging and beta classifications and of course understanding of leverage.

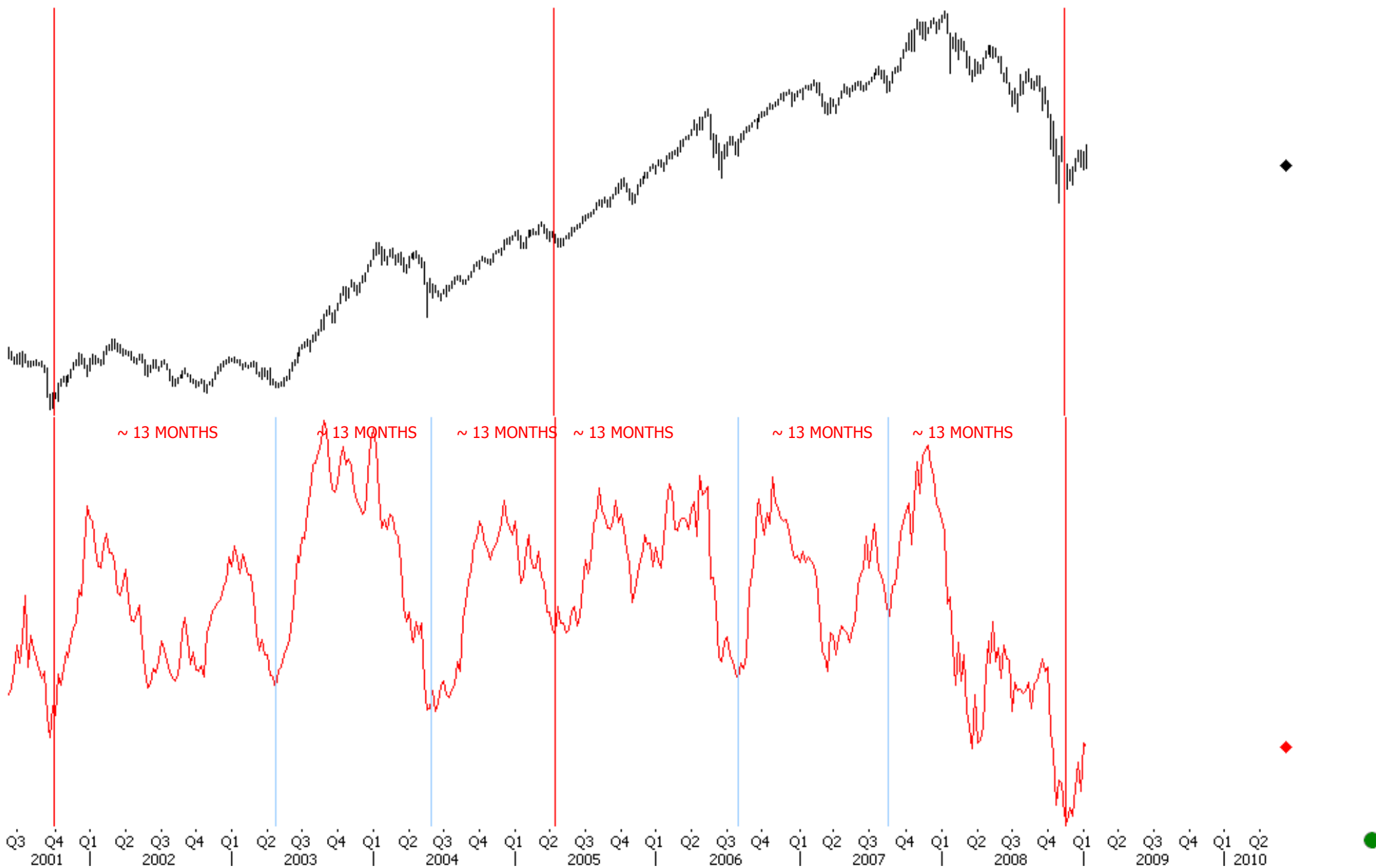


Regarding the overall market direction, we can look at time again. Markets go up when the time confirms and vice versa. Time fractal approach means that if we need a view for the 12 months and few weeks ahead, we need to see how time is placed few months and weeks. This is what we did. We plotted the time (days) between intermediate trends. The time indicator is an oscillator. A rising oscillator indicates a trend and a falling oscillator indicates counter trend. At this stage the intermediate time indicator is still rising suggesting there may be further upside. Any rally in Indian markets should not last beyond Q1 2010 (high of 2010). At this stage however, we see the market opening positive on 4 Jan and pushing higher. A net positive 2010 is a low probability scenario at this stage. India is in a multiyear trading range for us, something like the 1990's US bear market which lasted for 4 years. Till the time we get clarity on the absolute performance, we will stick to the relative performance, get out of today's top performers and get into today's top underperformers.

We started the year with a positive recommendation for the Indian markets by saying that above psychological 10,000 our preferred positive view remained valid. The break down of the inverted Head and Shoulders pattern (right chart) also confirmed this view.



The 13 months average Kitchin cycle also pointed up.



Prices continued to move in a sideways correction and we anticipated a break down before anything at the end of February or early March.

