

# TIME, PRICE AND DEGREE

Conventionally a technician is taught three important aspects of markets viz. forecast, timing and risk management. We believe that the best risk management can be done if a technician understands time, price and degree.

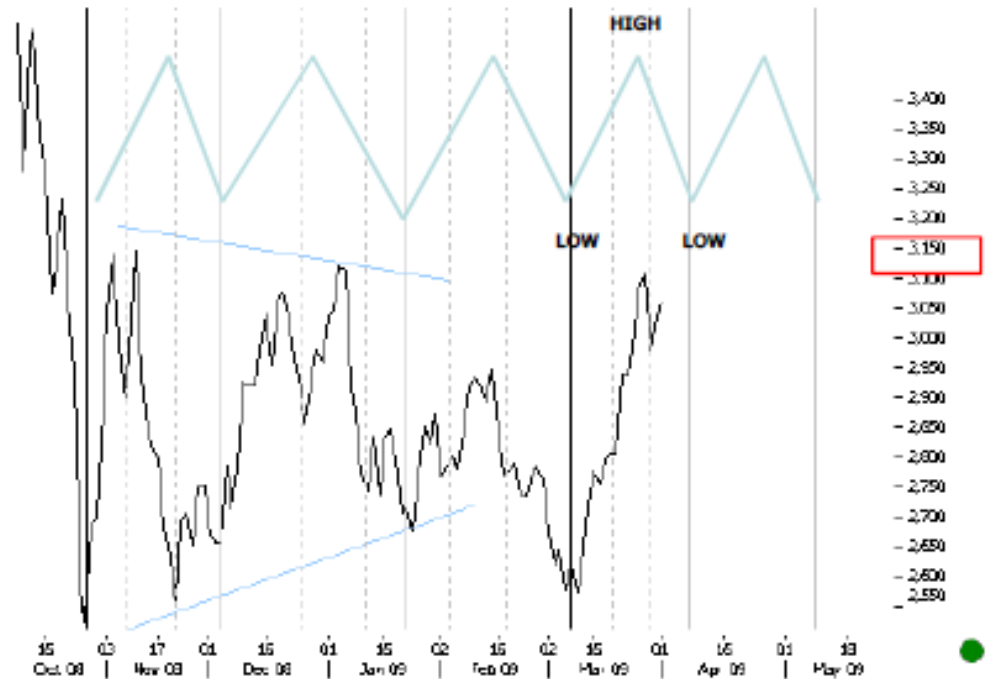
Let us take the current case for Sensex and Nifty. On the price side we have Sensex psychological 10,000 with potential upside till 10,400 (red horizontal line), second side we have the Orpheus proprietary time oscillators which suggest that a dip in the second week of April is pending before any further rise. The third is the aspect of degree, which suggests that if a large upmove has started then positive bias is of a larger degree and prices could rush up higher and discard all small degree time windows.

From a price perspective, we not only have the previous highs in place since 27 MAR but also the true trendline and key resistances lie right ahead. From a momentum perspective (not illustrated) we have all time mega overbought indications, which warrant a reasonable dip before we see further upside. And from intermarket perspective, though the rally has seen broad based support, it's auto, oil and technology that are more excited. Now these are really not the sectors we would expect to lead us into a serious rally. This seems more like Infosys and Reliance in action rather than anything else.

We also are aware that too much caution might be inappropriate, specially after we got the Mar rally right. But if it's really about a probable 400 points more on Sensex till 10,400, we could give it that space. About the time, cycle highs are more noisy than cycle lows. What we are seeing is a cycle from first week of Mar till first week of Apr. Even a largely translated (positively biased) cycle high should hit time resistance soon. If it does not stop now then our time windows are wrong.

We remain DOWN on the overall market. And will review at a clear 10,000-10,400 breach on the Sensex.

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# THE TECH REVERSAL – II

This is what we said on 14 JAN.

*"We are betting on a turn here. CNXIT has also shown a move up in ranks in performance over periods of 6 months, 3 months and 1 month. It has come from a negative of -38.16% over 6 months to a positive move of 3.47% over the last month. The index has moved up despite all negative news and a sector leader going bust, a classic proof of relative outperformance.*

*Apart from the fact that there is a lot of negative sentiment extremities linked with the sector, the CNXIT has been falling for more than 24 months. Even from an annual cycle perspective, a bounce is due. We should also keep in mind that a sector index is different from a company, a company can go bust, but a sector failure is more in the mind than real. Because as individuals we may perish but as a group we innovate, survive and thrive. To assume a sector failure from current levels is like assuming that the drunkard would never reach home, but then he surprises."*

What happened was that CNXIT made a low on 21 JAN (2,097) and breached the respective low marginally on 03 MAR (2,002). Where are we now? 50% up. We also have been carrying an ending diagonal formation all this while since the reversal started (slide 5).

Where are we going now? The illustrated chart is a pair performance cycle between Infosys and CNXIT. Like we have said it prior, everything is cyclical, including the performance between Infosys and CNXIT. The blue chip is 'Growth' compared to the 'Value' the Index offers. And value generally outperforms market at a market bottom, like the case here.

Now where is the performance CYCLE? CNXIT has reached an outperformance top against Infosys and CNXIT should underperform Infosys or in other words CNXIT should correct more than Infosys. After a 50% rise and prices gapping higher, we rather bet on this then keep herding about a recovery which is already two months old. We really don't want to forget the old adage regarding MAY.

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## THE VALUABLE INDIA!!!

Near 20% move can wash up a derivatives portfolio or double it in a day. We don't specially focus on risk management in our research, but these are the days, when we really think of stressing more on risk management than on forecasts. Despite everything, event risk should be best avoided or handled with long options than with futures. If you think you were smarter getting away with doubling your portfolio, you are fooling yourself, as volatility is a double edged sword. It can cut you as well as it can hurt your counterparty. We were on the wrong side of the market. Strangely we were receiving congratulatory calls from people who remembered our work on LONG INDIA, SHORT CHINA we wrote on 23 Feb this year. The pair made 50% in three months. The idea is still about risk management than just about being right. Being right 9 times and wiped out the 10th time is worthless. A few even called us regarding the possibility of a review of our annual target.

This is what we said in our 2009 India Outlook published in Jan 2009.

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

After Sensex 10,500, 12,000 was something we could give it to the sentiment, but 12,000 to 14,284 is an extremity for us. We rather ignore Sensex than try to ride it now that we have the first monthly open gap in 10 years. At 60% INDIA leads the FEB-MAY performance rankings of the top global economies. Russia ahead of India again brings us to LONG INDIA-SHORT CHINA feature which suggested RUSSIA also as a potential outperformer.

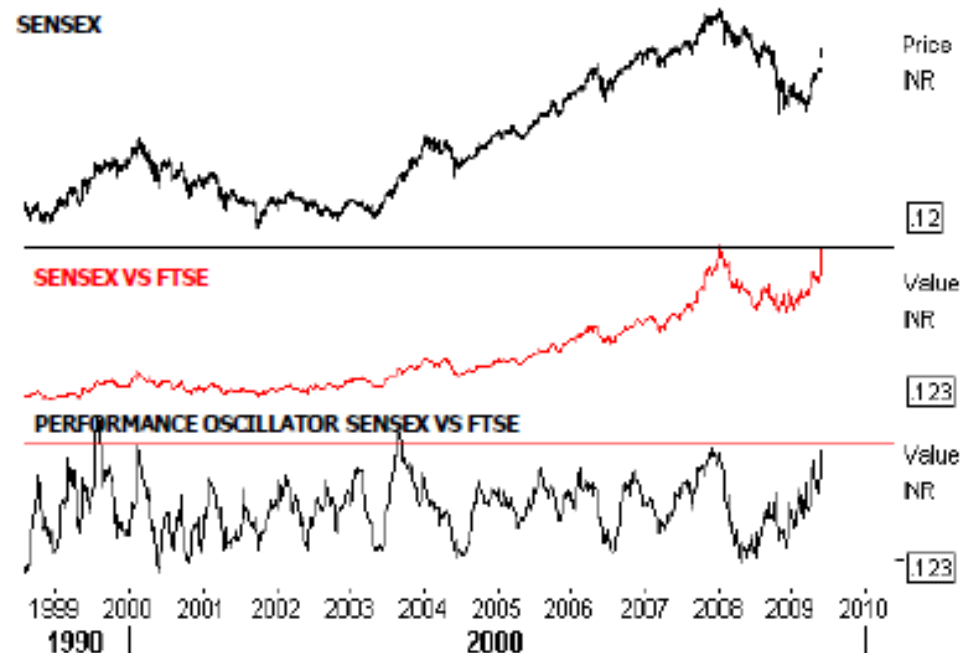
This is what we said in our feature 'Russia Oil and the Global low' report on CYCLES on 15 Feb 2009.

*"From one extreme, the sentiment is shifting to the other now, as both Oil and Russia are now featured negatively. We don't see many long Russia stories, just like we don't see any long Oil stories. What we hear are dollar 5 forecasts, and how recession and auto demise have killed the Oil prices. Russia's main exchange MICEX shut down for two days on Sep 16 after it lost 17% in a few hours. This was just like many freezing markets shut worldwide. Now the conventional reasons we hear are the over leveraged banking sector, painful process of restructuring, falling oil prices, real estate collapse, growth grounding to a halt, Russia's war with Georgia, spooked foreign investors, capital flight, cascading margin calls. There are even comparisons of the current Russian crisis with the 1998 Rubble crisis. A few even say the gloom is not just for 2009, but also about 2010 and 2011."*

Trading gaps of such magnitude have less odds of remaining unfilled. So SENSEX 12,000 should be revisited. A comparison of the worst performer in the table FTSE (UK) with SENSEX also suggests that SENSEX might just have pushed itself over the edge. Sensex should underperform the worst performer (FTSE) for at least a quarter. This means either SENSEX should rise less than FTSE, FTSE should rise more than SENSEX or SENSEX should now start correcting lower, faster than FTSE. A PUT just after the election euphoria should be pretty cheap.

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COUNTRY	INDICES	FEB CLOSE	18-MAY	CHANGE
RUSSIA	irts	544	939	73%
INDIA	bsefn	8891	14284	61%
BRAZIL	bvsp	38183	51379	35%
CHINA	ssec	2082	2652	27%
GERMANY	dax	3843	4851	26%
FRANCE	cac	2702	3245	20%
AMERICA	dji	7062	8474	20%
JAPAN	n225	7568	9038	19%
UNITED KINGDOM	ftses	3830	4446	16%



# THE 13 WEEK PAUSE IS HERE

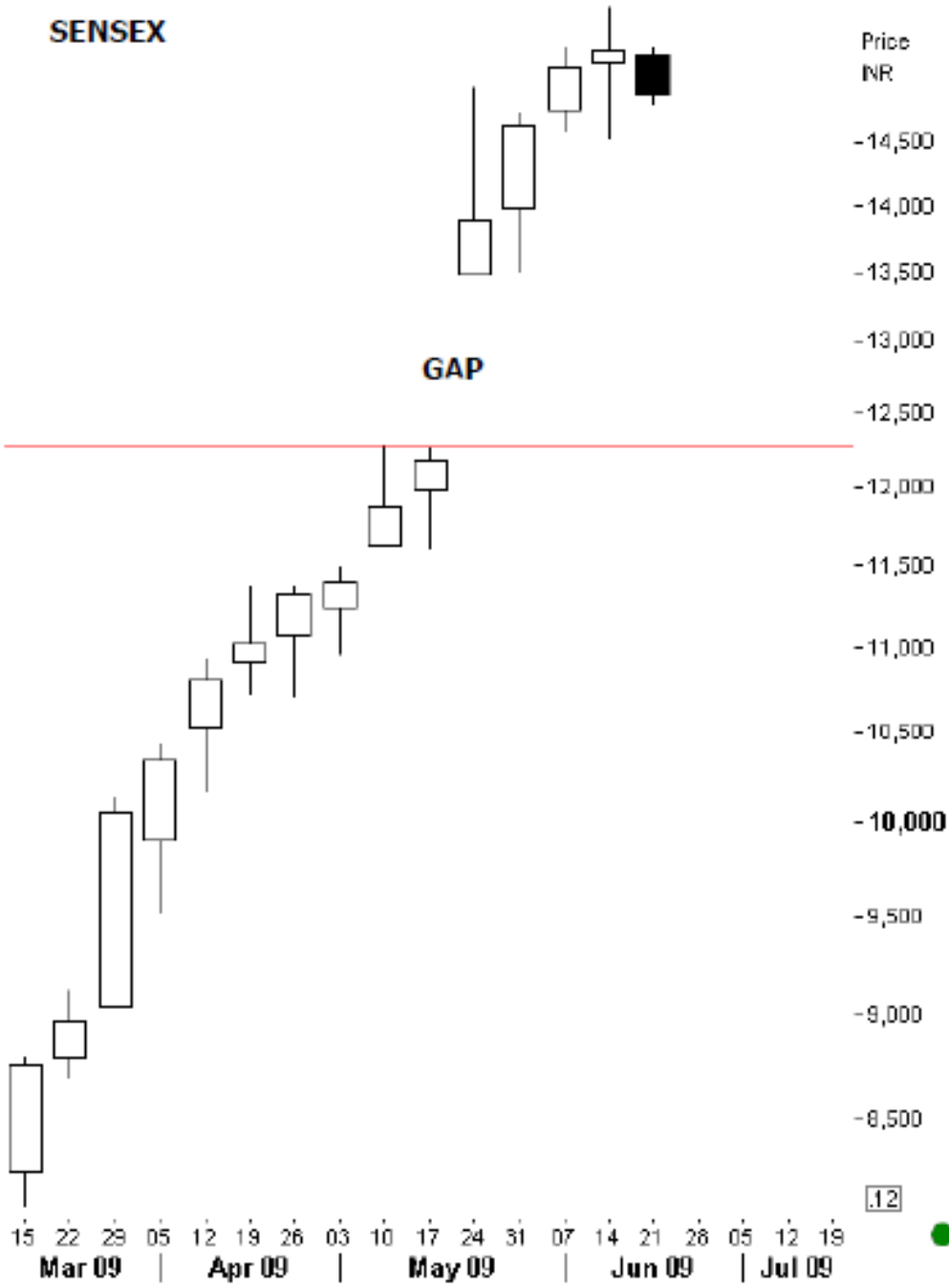
After 13 week of uninterrupted rise SENSEX has finally hit some resistance. Has it? Though 13 is a Fibonacci number with some significant symmetry what is more relevant here is that markets can not rise uninterrupted. We also had a small body indecisive candle last week, which makes the current week's black body start not easy to ignore. The wide open gaps at 12,500 are also strange attractors that won't let SENSEX rest in peace. TIME CYCLES that we have highlighted on prior occasions are non confirming and negative. Both preferred and alternate SENSEX counts suggest we are indeed at the top of the road for SENSEX for multi weeks even if we look at the current up move as a nine legged or W-X-Y-X-Z intermediate corrective up.

Other negatives include filled open gaps by CNXIT, failure swing at BSEAUTO, non confirming momentum on BSEOIL, BSE Health Care, BSEAUTO, first cracks at intermediate cycle top on CNXIT, cycle highs on BSEPOWER and a host of performance cycle updates.

The SENSEX VS. DOW pair has reversed suggesting SENSEX underperformance against DOW. If DOW will fall, SENSEX will fall more. SENSEX underperformance VS. GOLD, if Gold will fall, SENSEX will fall more. SENSEX underperformance VS. FTSE, if FTSE will fall, SENSEX will fall more. The latest report also carries an update on our open pair CNXIT VS. INFOSYS. We continue to hold LONG Infosys view against CNXIT.

The only positive seems the BSEBANK, which is still stuck at 8,000. Financials still seem to be holding on. Pauses are wishful thinking. Markets don't always rise and pause, they also fall in cyclical precision.

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## SENSEX DOWN 8% FROM TOP

Last time (WAVES.IND.160609) we said that,

“Markets don’t always rise and pause, they also fall in cyclical precision.”

It seems that the latter is the case here. After completing the 13 week period of rise, SENSEX shows more signs of negativity. Both Preferred and Alternate scenarios suggest further retracement and time cycles point lower till mid July. NIFTY and CNXIT completed the impulse up and now we expect further downmove in their cases also.

The current report also carries ANTICIPATED AND HAPPENED cases on CNXIT and BSE REALTY and time cycles updates on BSEBANK and OIL.

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