

WHERE IS THE NECKLINE?

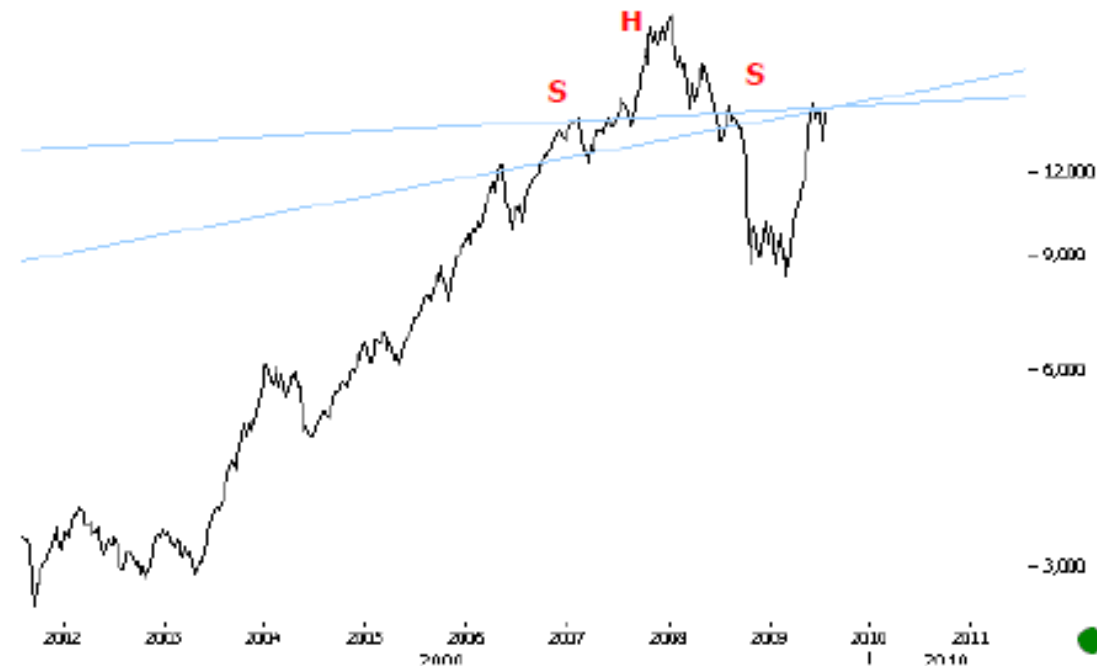
The Head and Shoulder and its neckline has been in discussion the last few days. But the pattern at the heart of the debate is the intermediate multi month formation SENSEX is churning since MAY. In our concentration on short term price action, we seem to have forgotten that there is a larger time above the smaller time. The primary pattern of SENSEX supports a similar fractal like the one in debate.

We are not saying don't watch the pattern. We are just saying that don't forget the larger time frame. The world watches the Head and Shoulder pattern. We explained why in THE TIME SHOULDER (WAVES.GLOBAL). But is the pattern so important that we focus more on necklines and forget all trendlines. The NIFTY intermediate MAR trendline remains broken and a potent resistance.

What about patterns on momentum indicators. Many experts like Martin Pring have written books about reading patterns like Head and Shoulder in momentum. Why do we forget the patterns in momentum? BSEMETALS intermediate momentum supports many such patterns (SLIDE4). If there is something we love, we love the Head and Shoulder pattern neckline on NIFTY. Ok! It broke! But what about the BSEOIL, BSERIAL, BSEPOWER where it did not. Do the other sectors matter? Or they don't?

Though markets are flip flopping around previous resistances and we got the leg down right and not the leg back up, we are not excited about the move up. Performance cycles remain negative, intermediate momentum and confluence continues to suggests caution. We are only trading this leg up. The Intermediate view remains 'UP BUT TOPPING' for us. About ELLIOTT, if you can spot an unambiguous 2 wave retracement in the leg up for MAR to us, you should be the one answering "WHERE IS THE NECKLINE?"

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INDIA OUTLOOK. H2, 2009

PAIR	ASSET I	31-dec.	MAR LOWS	% CHANGE	ASSET II	31-dec.	MAR LOWS	% CHANGE	ABSOLUTE	% CHG (I-II)	ANNUALIZED
SENSEX - NIFTY	SENSEX	<u>9647,00</u>	<u>8047,00</u>	-16,59%	.NSEI	<u>2959,00</u>	<u>2539,00</u>	-14,19%		2,39%	2,45%
SENSEX - METALS	SENSEX	<u>9647,00</u>	<u>8047,00</u>	-16,59%	.BSEMETALS	<u>5214,00</u>	<u>4408,00</u>	-15,46%		1,13%	1,15%
SENSEX - OIL	SENSEX	<u>9647,00</u>	<u>8047,00</u>	-16,59%	.BSEOIL	<u>6050,00</u>	<u>5525,00</u>	-8,68%		7,91%	8,09%
SENSEX - PHARMA	SENSEX	<u>9647,00</u>	<u>8047,00</u>	-16,59%	.BSEHC	<u>2966,00</u>	<u>2490,00</u>	-16,05%		0,54%	0,55%
SENSEX - FMCG	SENSEX	<u>9647,00</u>	<u>8047,00</u>	-16,59%	.BSEFMCG	<u>1987,00</u>	<u>1781,00</u>	-10,37%		6,22%	6,36%
SENSEX - TECH	SENSEX	<u>9647,00</u>	<u>8047,00</u>	-16,59%	.CNXIT	<u>2187,00</u>	<u>1993,00</u>	-8,87%		7,71%	7,89%
SENSEX - REAL	SENSEX	<u>9647,00</u>	<u>8047,00</u>	-16,59%	.BSEREAL	<u>2274,00</u>	<u>1297,00</u>	-42,96%		26,38%	26,98%
SENSEX - POWER	SENSEX	<u>9647,00</u>	<u>8047,00</u>	-16,59%	.BSEPOWER	<u>1829,00</u>	<u>1581,00</u>	-13,56%		3,03%	3,09%
SENSEX - BSE500	SENSEX	<u>9647,00</u>	<u>8047,00</u>	-16,59%	.BSE500	<u>3596,00</u>	<u>2961,00</u>	-17,66%		1,07%	1,10%
SENSEX - CG	SENSEX	<u>9647,00</u>	<u>8047,00</u>	-16,59%	.BSECG	<u>7238,00</u>	<u>5393,00</u>	-25,49%		8,90%	9,11%
SENSEX - CD	SENSEX	<u>9647,00</u>	<u>8047,00</u>	-16,59%	.BSECD	<u>1913,00</u>	<u>1428,00</u>	-25,35%		8,77%	8,97%
SENSEX - BSEAUTO	SENSEX	<u>9647,00</u>	<u>8047,00</u>	-16,59%	.BSEAUTO	<u>2444,00</u>	<u>2574,00</u>	5,32%		11,27%	11,52%
PAIR	ASSET I	MAR LOWS	CURRENT	% CHANGE	ASSET II	MAR LOWS	CURRENT	% CHANGE	ABSOLUTE	% CHG (I-II)	ANNUALIZED
SENSEX - NIFTY	SENSEX	<u>8047,00</u>	<u>14843,00</u>	84,45%	.NSEI	<u>2539,00</u>	<u>4568,00</u>	79,91%		4,54%	7,30%
SENSEX - METALS	SENSEX	<u>8047,00</u>	<u>14843,00</u>	84,45%	.BSEMETALS	<u>4408,00</u>	<u>12118,00</u>	174,91%		90,46%	145,37%
SENSEX - OIL	SENSEX	<u>8047,00</u>	<u>14843,00</u>	84,45%	.BSEOIL	<u>5525,00</u>	<u>9595,00</u>	73,67%		10,79%	17,34%
SENSEX - PHARMA	SENSEX	<u>8047,00</u>	<u>14843,00</u>	84,45%	.BSEHC	<u>2490,00</u>	<u>3880,00</u>	55,82%		28,63%	46,01%
SENSEX - FMCG	SENSEX	<u>8047,00</u>	<u>14843,00</u>	84,45%	.BSEFMCG	<u>1781,00</u>	<u>2588,00</u>	45,31%		39,14%	62,91%
SENSEX - TECH	SENSEX	<u>8047,00</u>	<u>14843,00</u>	84,45%	.CNXIT	<u>1993,00</u>	<u>4076,00</u>	104,52%		20,06%	32,24%
SENSEX - REAL	SENSEX	<u>8047,00</u>	<u>14843,00</u>	84,45%	.BSEREAL	<u>1297,00</u>	<u>3790,00</u>	192,21%		107,76%	173,18%
SENSEX - POWER	SENSEX	<u>8047,00</u>	<u>14843,00</u>	84,45%	.BSEPOWER	<u>1581,00</u>	<u>2903,00</u>	83,62%		0,84%	1,34%
SENSEX - BSE500	SENSEX	<u>8047,00</u>	<u>14843,00</u>	84,45%	.BSE500	<u>2961,00</u>	<u>5826,00</u>	96,76%		12,30%	19,77%
SENSEX - CG	SENSEX	<u>8047,00</u>	<u>14843,00</u>	84,45%	.BSECG	<u>5393,00</u>	<u>12578,00</u>	133,23%		48,77%	78,39%
SENSEX - CD	SENSEX	<u>8047,00</u>	<u>14843,00</u>	84,45%	.BSECD	<u>1428,00</u>	<u>3139,00</u>	119,82%		35,36%	56,84%
SENSEX - BSEAUTO	SENSEX	<u>8047,00</u>	<u>14843,00</u>	84,45%	.BSEAUTO	<u>2574,00</u>	<u>5545,00</u>	115,42%		30,97%	49,77%

If Short S&P500, long DOW is absurd, what you are going to read below should be shocking. We will be taking you through pairs and performance cycles (a term coined by us) on the Indian capital markets. Performance cycles work because of time fractals.

This is what we said in our annual [India outlook 2009](#).

"Starting Aug 1992, Sensex has shown an average 40 month cycle. Three of the 40 month cycle make a decade cycle. The first decade cycle ended in 2002 and the second decade cycle should end somewhere around 2012. We are now in the last 3.3 year cycle up. Since the markets have erased most of the gains made since the decade up cycle started in Sep 2001, the expected bounce should be choppy and time consuming. 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. BSE Metals was the worst performing sector of the year at -72%. We expect it to deliver better returns, atleast for Q1 2009. We also expect BSE Oil to outperform Sensex over Q1 2009. Indian markets still lack instruments for doing advanced quantitative strategies. But long BSE 500 – short Sensex also seems an attractive pair for Q1 2009. Don't get too much into the negative mode despite all crisis and majority is foolish talk. Try looking top down."

What happened? If you look at the twelve composite and sector indices (Nifty, Metals, Oil, Health, FMCG, Technology, Real Estate, Power, BSE500, Capital Goods, Consumer Durables, Auto) a majority of them retested Oct lows and breached it marginally. Most of the market lows happened near 3-12 MAR window, 15 days before anticipated Q2 2009 started. We talked about a SENSEX target of 13000-15,000. Sensex hit a high of 15,600 on 14 Jun. The top loser BSEMETALS was a recommended sector not only fell marginally less than SENSEX in the first quarter (31 Dec 2008 – Mar 2009 low), but was the top performer for the year (31 Dec till date). Despite the OIL crash, our recommended pair lost 2% against Sensex. The BSE500 vs. SENSEX pair delivered 11% from 31 Dec. We clearly cautioned against too much negativity. SENSEX was up 67% for the year. We wrote about the [Tech Reversal](#) here on 26 Jan. After a month CNXIT turned up from a low of 1993 to 4076 (up 105%).

Coming back to pairs, the question which might surprise any conventional thought is that how did a notional pair LONG BSE500, SHORT SENSEX work? 20% annualized returns may not be very exciting for a leveraged forex trader but they can be significant for a mutual fund, especially if the returns come with lower risk. How could we know that the broad market could outperform the blue chips as early as the start of the year? Performance cycles are easy to spot and work with, if you believe Time Fractals and cycles work and exist. We can illustrate pair performance between Nifty, Cnxit, NSE Bank, the few tradable Index futures and between stock futures of sector peers like Reliance and ONGC etc.

Other interesting observations are that two respective periods saw shifting polarities, like a classic performance cycles. The performers of the first period became underperformers of the other. The first period underperformers against Sensex viz. BSE Real, BSE Consumer Goods, BSE Capital Goods became performers in the other period. While the first period performers (Till Mar) against Sensex viz. BSE Oil, BSE FMCG, NIFTY, Health care shifted polarity and underperformed Sensex (Post MAR). The best part is that some pairs delivered more than Sensex on an annualized basis. Sensex delivered 136% from MAR lows, while BSE Metals – Sensex and BSE Real – Sensex pair delivered 145% and 173% respectively on annualized basis.

Apart from the investment strategy studying pair performance cycles can also give many cues regarding market perspective. There is a limit to which BSE Metals can outperform the blue chip 30 stock index. If BSE Real, BSE Metals, and BSE Capital Goods have already outperformed Sensex by 100%, 90%, 50% respectively since MAR lows where do you think this outperformance can go? The outperformers of today will be the underperformers of tomorrow.

The BSE500 outperformance has topped against Sensex and broad market underperformance against blue chip is not encouraging if you are just looking at the Sensex portfolio. 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. When you have 100% annualized performances under your belt in half a year, you don't haggle about the last 10%. We will review if markets breach this 10% push up from here.

Are pairs really that good? Are time fractals tradable? Are pairs really offering more returns for per unit of risk? Is risk really associated with price or time? These are a few questions you need to answer before you reach implementation stage and comprehending how to make money buying Sensex against NIFTY or vice versa.

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WAVES.IND. is a perspective product published on Tuesday and Thursday. The report highlights Indian Stock Market top sectoral Indices and Sensex (BSE 30) viz. BSEOIL, BSESC (Small Cap), BSEMC (Mid Cap), BSEHC (BSE Health Care), BSEPHARMA (Pharmaceuticals), BSECG (Capital Goods), BSEBANK (Banking), CNXIT (Technology), BSEFMCG (FMCG), BSEAUTO (Auto) etc.. The product also covers all the 30 Sensex components. The product highlights Primary (Multi Month) and Intermediate (Multi Week) price trends. The report illustrates key price levels, price targets, price projections and time turn windows. The product uses Elliott waves, traditional technical analysis tools, sentiment indicators and other alternative research tools like INTERMARKET to spot outperformers.

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