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Equities – Get Ready for a Bright Future!

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The sharp corrections in markets post the Y2K top and 2007-2008 top has created a lot of disbelief in investors for Equity as an Asset class. As the returns have been highly volatile and the interim downsides of 50% plus from peaks is a scary proposition.

What we see over the Technical Picture of Global and Indian Markets is that 2013 could lead to a total change in investor sentiments as well as markets.

In the report further we may look into various global indices and reasons pointing towards a start of big bull markets over the world. Following are the various charts which we will be looking for more insights.

- 1) US Indices
- 2) European Indices
- 3) Global Indices
- 4) Indian Indices.
- 5) Volatility Indices

USA Indices

Dow Jones Industrial Average – Last time a life time high hit in 2007 led to 20-25% rally



- ➔ After the peak in 1999 the index took almost 6-7 years to get back to same levels. A break above that led to a 20-25% rally before peaking out.
- ➔ The drop post 2007 top led to a test of the other extreme of the channel.
- ➔ In the last 1 year Dow Jones has finally crossed above an overhead trendline as well as is above the highs of 2007.
- ➔ The other extreme of the channel comes to 16000. More important thing to note is whether it will lead to a multi-year bull market?

Dow Jones Transportation Average – Already 10% above previous highs and rally is here to stay



- ➔ Dow Jones transportation index is already more than 10% above the all time highs. The extreme end may not be far.
- ➔ Given that the breakout has come after 3-4 attempts in last 5 years indicates this move is here to stay for the long term. Also this confirms that the current rally is broad based.

Russel 2000 – Into life time highs and setting up for a big move



- ➔ The all time highs took almost 4-5 attempts to breakthrough and now 10% higher above highs.
- ➔ This shows the bull market has already begun in broader markets and the extreme end seems way higher for this index.
- ➔ Most importantly the breakout is clear and we may be heading into a multi-year move as per this chart.

S&P 500 --- About to cross into life time highs and indicate start of a new bull market.



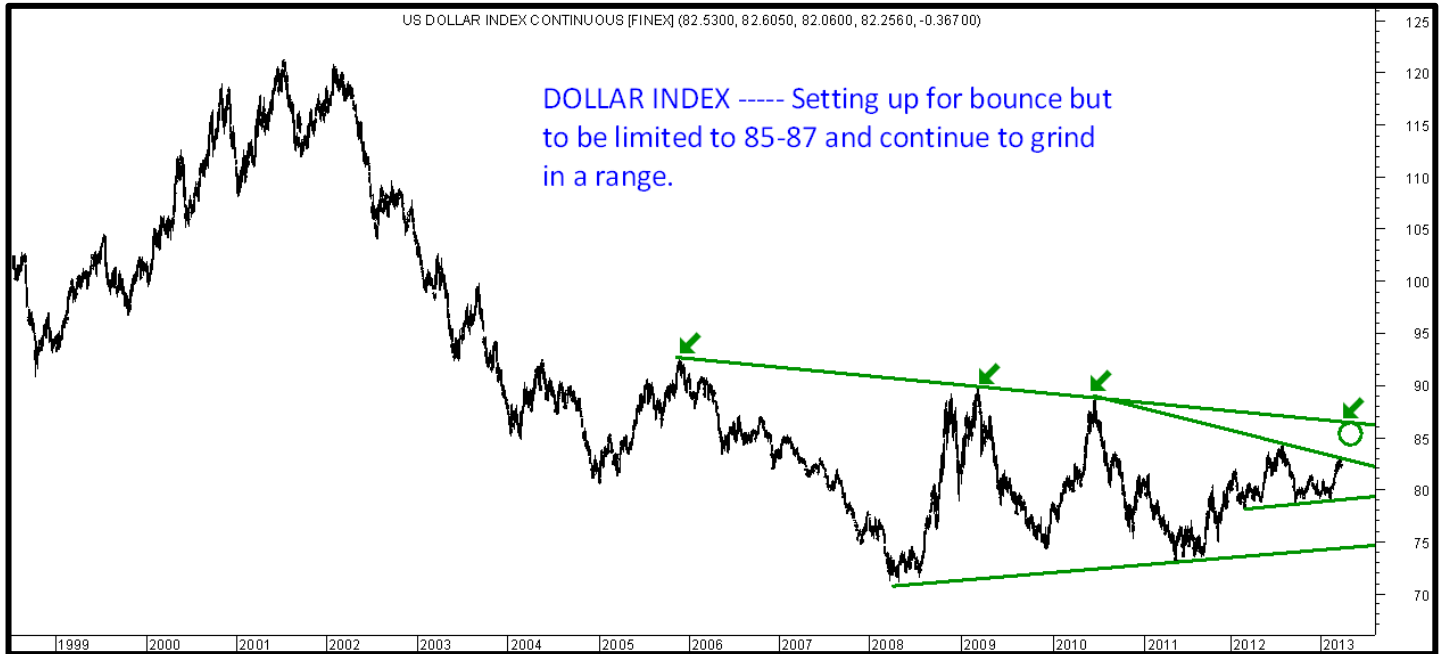
➔ Exact double tops last time in 1999-2000 and 2007-2008 tops and a test now is opening up for a long term bull market here which could last a few years.

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Dollar Index – Gives indication of bouncing but will continue to grind in a range



- ➔ The bottom maybe in place for the dollar index but a bounce may max go to 85-87 and again restart a grind in a sideways range.
- ➔ So no major trend change in Dollar Index here for quite some months to come.

European Indices – Finally turning around

CAC –Bottom confirmed but away from a Bull market



➔ The last triangle breakout confirms a bottom being in place but a move beyond 4100 will create a long term bull market.

FTSE – In a bull market but will take time to cross into life time highs



- ➔ For last 2 years 5900-6000 was a major resistance and that has been crossed and now not far from life time highs.
- ➔ The trend seems setting up for crossing a 10 year trendline in next few months.

DAX --- Strong trend confirmed at 7000 and is all set to launch into life highs above double tops of 2000/2007



- ➔ The breakout at 7000 confirms start of a bull market and the momentum is clear to launch above life time highs in coming months. Sustaining that breakout can create multi-year rally.

Global Indices show mixed trends

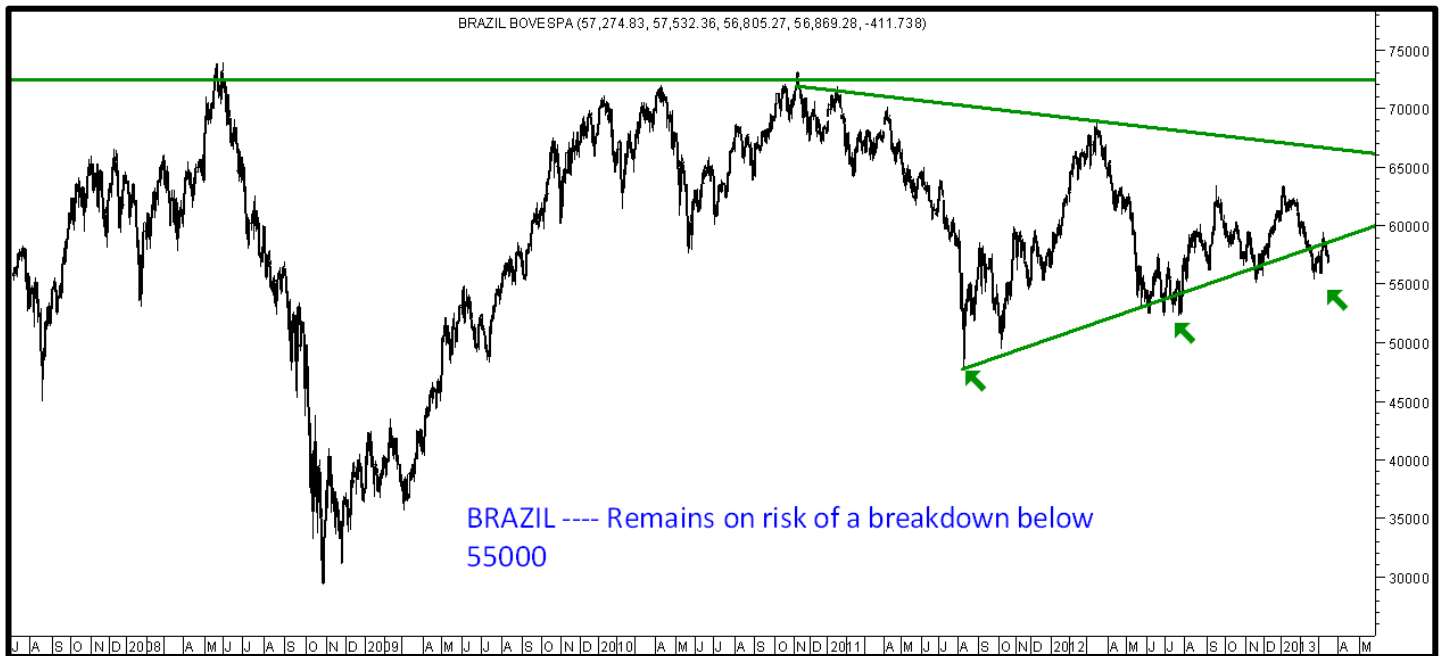
Australia is consolidating before a major rally to start



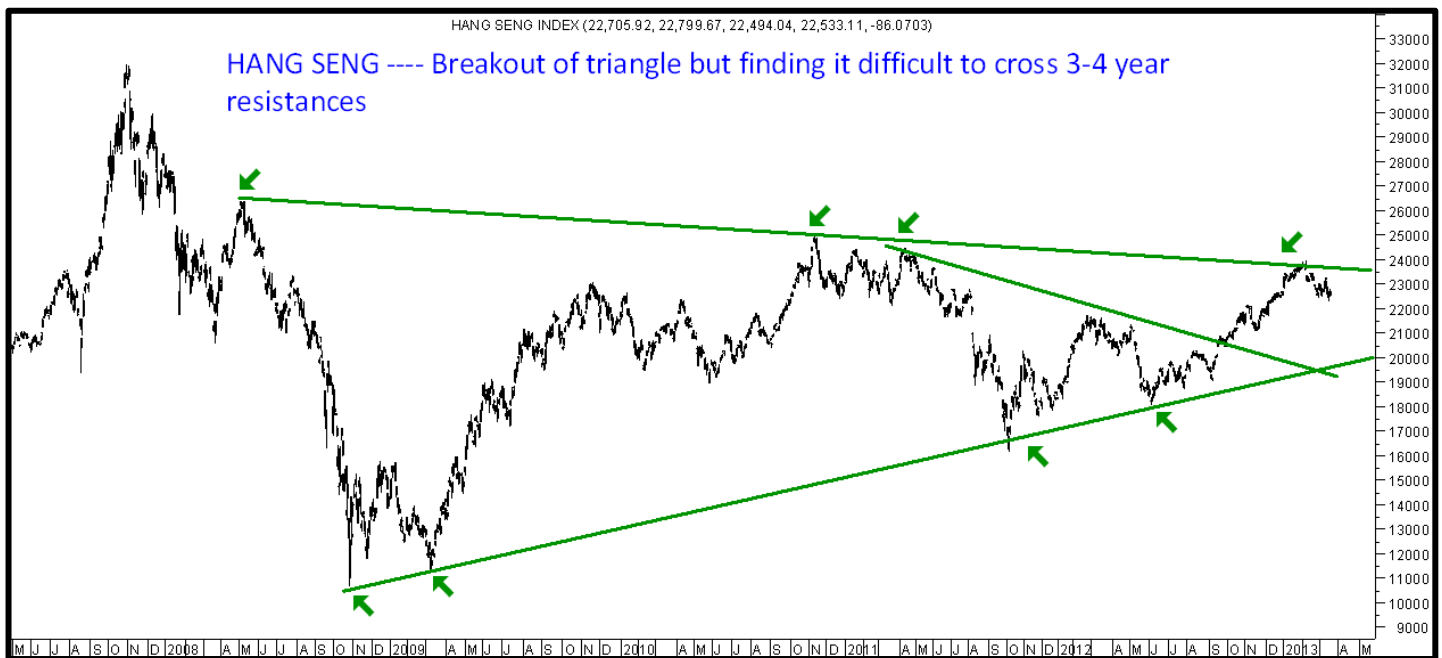
Belgium – Short term breakout and on verge of a major trend change



Brazil– Remains on risk of breakdown below 55000. Co-relation to crude is strong.



Hang Seng – Did give a triangle breakout but finding it to difficult to cross 3-4 year resistances. A move beyond 24200 will give a major bull rally



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JAKARTA --- Continues into life time highs



KLSE --- Consolidating at a 10-15 year breakout zone. Can launch into a new bull market



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MEXICO --- Yet another country into life highs



NIKKEI – Long term bottom in place now it can be a multi year bull market for this index



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China – Not out of the woods but time to grind instead of collapse

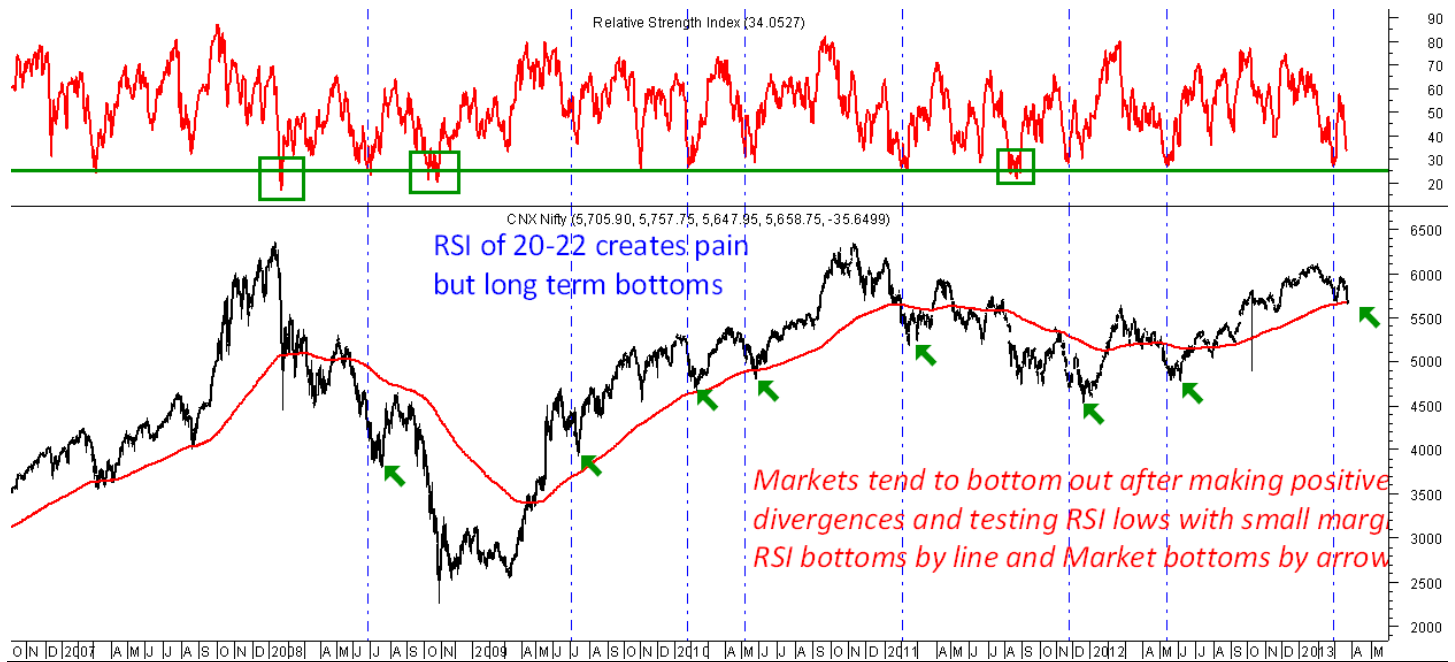


Taiwan – Making a base and gaining strength to break above 8000 barrier.



INDIAN INDICES- Getting into oversold conditions like previous bottoms

NIFTY RSI at levels of major previous bottoms like 4500/4800



- ➔ The most oversold band for Nifty is 20-22 which has happened only in lower circuits of 2008 and bottoms of 2009. The last time it hit those levels was in August 2011 which created a major bottom by Dec 2011.
- ➔ The general band for RSI is around 28 which it has touched recently.
- ➔ After hitting oversold levels it does not lead to immediate bottoming out and most of the times a bottom is seen in next 2-6 weeks or little more. The bottoms have been around + - 100 points from the RSI day Nifty low.
- ➔ So on a similar basis Nifty low of 5660 one can expect 5550-5750 as an area to find a durable bottom or a little lower.
- ➔ This bottom can be a durable bottom like 4500/4800. We saw similar positive divergence and RSI hitting current levels at 4500/4800.
- ➔ From current oversold levels we can expect a rise similar to previous times towards overbought levels. If we note we saw a 1000 point rallies from 4500/4800 bottoms.
- ➔ **We might be very close to one of the biggest risk-reward opportunities on Indian indices.**

BANK NIFTY – Giving RSI Positive divergence with new lows



- ➔ Similar to Nifty the band for Bank Nifty in extreme cases is 18-20 (shown by green blocks)
- ➔ The bottoming out happens in next 1-2 months with lows being quite a bit lower than RSI day Nifty low.
- ➔ RSI has hit 20 levels only 5 times in last 5 years and general move is 12-15% from the lows.
- ➔ We have seen a new low being hit on Bank Nifty with positive divergence. Given the volatility it will be difficult to put a price to bottoming out but accumulating between 11300-10500 will be the ideal strategy.
- ➔ The last time we saw 2-3 bottoms forming positive divergence in August 2011 and every bounce being 10%.
- ➔ The ideal strategy now should be to accumulate and start booking partial profits on rise of 10% from the lows.
- ➔ The bottoms made post such RSI oversold levels can be a long term bottom which may not be seen for couple of years also.

BSE MIDCAP AND SMALL CAP INDICES – Big Divergence to broader indices.



- ➔ The biggest divergence in markets has been the severe underperformance of Midcap and Smallcap Indices in the last 5 years. They have come nowhere close to 2008/2010 highs.
- ➔ BSE Smallcap is down 58% from 2008 and 47% down from 2010 peak. At current levels it is lower than the June lows (Nifty 4800)

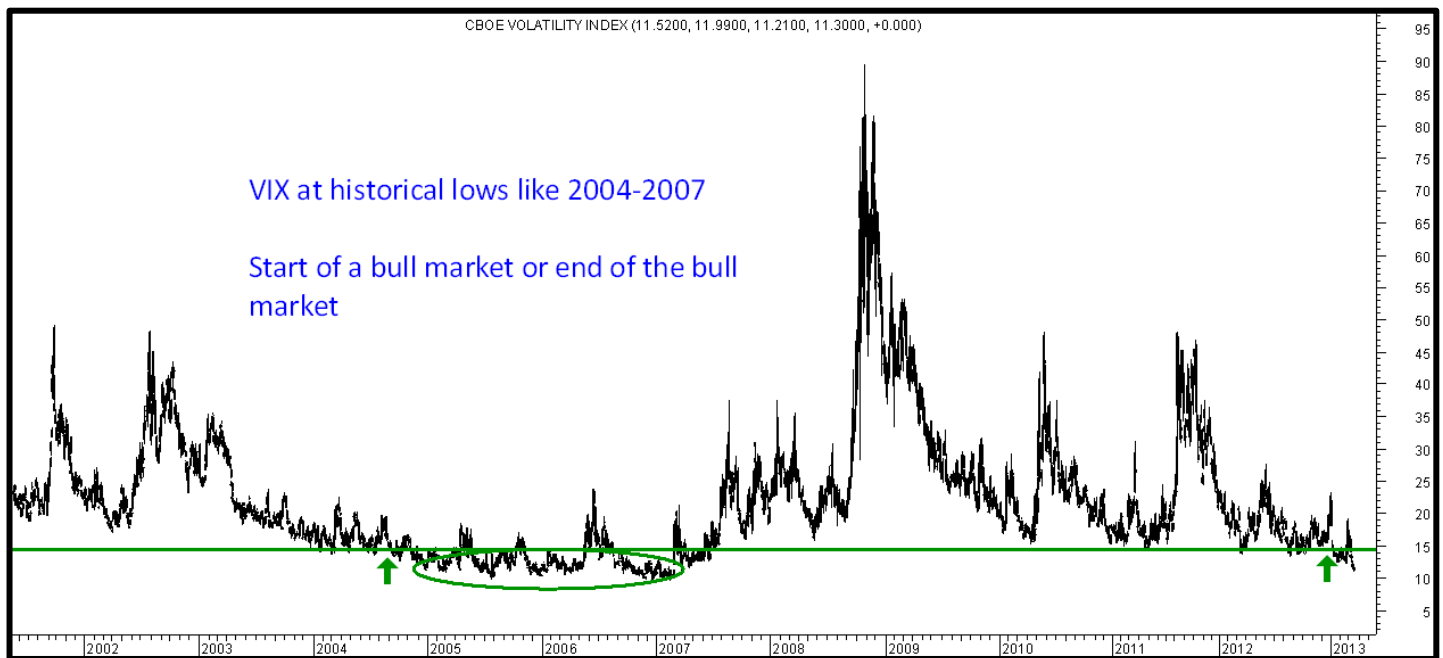
- ➔ So the broader market is in terrible state and is back to highly oversold levels. But the pain may continue for some more time before they recover.
- ➔ The Midcap/Sensex and Smallcap/Sensex ratios may not be a good indicator to use but it is at lows of 2004/2009. Indicating either the Sensex has to give up gains or its time for Smallcaps to stop underperforming.

SENSEX ---- Long term trend remains positive with higher top and higher bottoms



- ➔ The medium term trend for Sensex remains positive with higher tops and higher bottoms.
- ➔ The last intermediate bottom was 18255.
- ➔ On the upside we can see a major momentum rally coming in above 21000.
- ➔ We expect that the a new highs can take time but in the long run we are at attractive support levels with a superb risk-reward for long term investment.

VIX – At historical lows which indicates that we might well be getting into a bull market like 2004-2007



- ➔ The co-relation for VIX and Dow is opposite and a lower VIX implies a bull market. Its just that when VIX remains low for a long period of time like it did in 2004-2007 it creates a bull market and a subsequent panic.
- ➔ The current breakdown in VIX indicates we may now be in a low volatility index for time to come.
- ➔ Also the bottoms in 2010 and 2011 for Dow Jones had VIX hitting 40-45 levels. Such a move creates major bottoms for long term.
- ➔ So the scenario augurs well for a multi-year bull market with corrections is on cards to develop in coming months.

Conclusion

- ➔ Global Indices have given strong bullish breakouts few months back and are now edging towards life highs and crossing peaks of 1999-2000 and 2007-2008.
- ➔ We may see a pullback in the current strong move but it will be a correction to gain strength and launch into a multi-year bull market.
- ➔ The simplest reason to not look into a topping out formation on Global Indices is because of the lack of good sentiments and euphoria.
- ➔ The break down in volatilities, new highs in broader indices, Emerging economies indicates that finally some sort of bullish sentiment developing in broader markets around the world.
- ➔ For Indian Indices we are as oversold as we were at 4500/4800 bottoms and testing important support levels.
- ➔ The next 2-8 weeks will be an excellent time to buy in Indian markets for a 10-15% rise and maybe even looking at a possible long term breakout above new highs in the future. Risk-reward is at the best today.
- ➔ The strategy should be to accumulate large caps at current levels and dips till 5500-5550 of Nifty in the bottom case over next 2-3 weeks with an outlook to review back at 6000 or higher levels.
- ➔ Top sectors – Banking with focus on private banks like ICICI and AXIS , Oil and Gas – Reliance , ONGC and BPCL being top picks. Other focused picks – Cipla, HDFC , M&M , Tata Motors and TCS

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