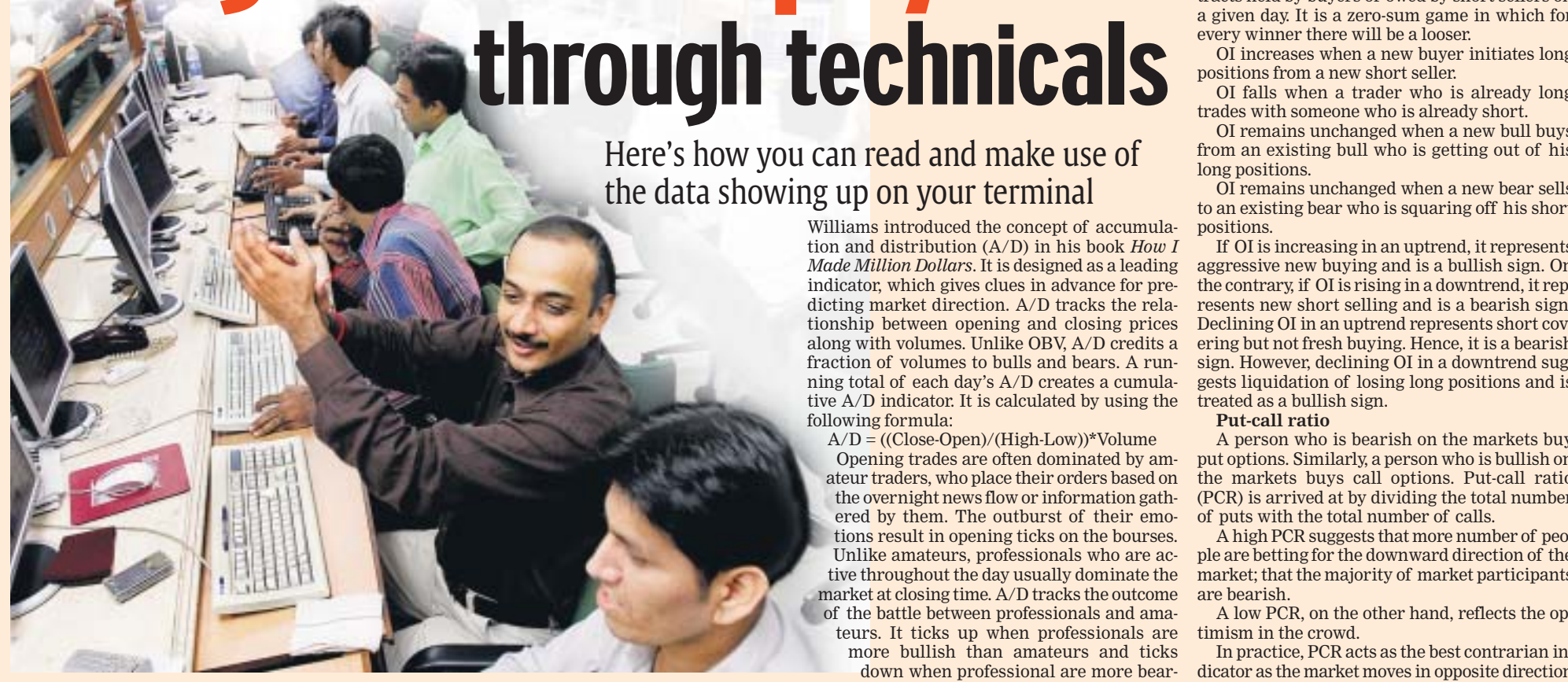


Gauging market through technical analysis



There is nothing new on Wall Street or in stock speculation. What has happened in the past will happen again and again. This is because human nature doesn't change and it is human emotion that always interferes in the way of human intelligence. Of this I am sure. - Jesse Livermore, the eternal darling of traders

Conventional economic theory safely assumes that homo sapiens behave rationally while making economic decisions so as to maximise their wealth. There is no place for emotions, sentiments and other external factors, which are likely to influence our decision making.

Unfortunately, in the real world, man seldom behaves rationally while making financial decisions; more so when it comes to investing in financial markets. There are many instances where emotions and other factors influence our decisions, causing us to behave in an unpredictable and irrational manner.

Behavioral finance, which is a combination of psychology, economics and finance, helps us understand why people behave irrationally when it comes to making financial decisions.

Kirkpatrick, eminent author and market technician of USA, in his book 'Technical Analysis: The Complete Resource for Financial Market Technicians' explains how behavioral finance is becoming a theoretical justification for technical analysis.

Classical technical analysis is applied social psychology. Charting provides a window to mass psyche. The emotions of the crowd are reflected in the ebb and flow of prices. If one charts this actively over a period of time, patterns in the price action emerges. By studying these patterns, one can understand the current psychological state in the market, which in turn helps us in predicting the direction of the market. Price, volume, open interest, etc also reflect crowd behaviour. So do the indicators based on them. By meticulously studying these indicators, one can get an insight into the mass psyche of crowds.

Let me explain how to read crowd behaviour reflected on the charts with a few examples. Prices quoted on the bourses reflect the consensus of value between buyers and sellers, whereas volumes reflect the emotions of market participants. It shows the intensity of traders' emotional and financial commitments. To read

these emotions reflected through volumes, Joseph Granville, the reigning market guru of USA in the late 1970s, introduced the concept of on balance volumes (OBV) in his book 'New Strategy of Daily Market Timing'. Granville colourfully described volumes as "the steam in the boiler that makes the Choo Choo go down the tracks".

OBV is a running total of daily volumes. It is calculated in two steps. First, each day's total volume is deemed as being positive or negative depending upon the closing price for the day. If

prices close higher, the total volume is positive; if prices close lower, total volume is negative. In the second step, each day's positive or negative value is summed up in a running cumulative total. A new high of OBV shows the power of bulls and a new low shows the strength of bears. As crowds exhibit mob mentality, volumes often precede the price changes, which gives us clues about the future direction of the market.

Accumulation/ Distribution Astute trader and technical analyst Larry Williams introduced the concept of accumulation and distribution (A/D) in his book 'How I Made Million Dollars'. It is designed as a leading indicator, which gives clues in advance for predicting market direction. A/D tracks the relationship between opening and closing prices along with volumes. Unlike OBV, A/D credits a fraction of volumes to bulls and bears. A running total of each day's A/D creates a cumulative A/D indicator. It is calculated by using the following formula:

A/D = ((Close-Open)/(High-Low))*Volume

Opening trades are often dominated by amateur traders, who place their orders based on the overnight news flow or information gathered by them. The outburst of their emotions result in opening ticks on the bourses. Unlike amateurs, professionals who are active throughout the day usually dominate the market at closing time. A/D tracks the outcome of the battle between professionals and amateurs. It ticks up when professionals are more bullish than amateurs and ticks down when professional are more bearish than amateurs.

Distribution of security is said to have taken place when price is making a new high and the A/D indicator is failing to make a new high. As it is a bearish sign, traders prefer to sell. Accumulation of the security is indicated when the security is making a new low and the A/D indicator is failing to make a new low. It is a bullish sign, which results in buy orders.

Open interest It takes one bull and one bear to create a fu-

tures or options contract. A person who is convinced that prices are heading high will initiate long positions and a person who is convinced that prices are heading down will initiate short positions.

Open interest (OI) refers to the number of contracts held by buyers or owed by short sellers on a given day. It is a zero-sum game in which for every winner there will be a loser.

OI increases when a new buyer initiates long positions from a new short seller. OI falls when a trader who is already long trades with someone who is already short.

OI remains unchanged when a new bull buys from an existing bull who is getting out of his long positions.

OI remains unchanged when a new bear sells to an existing bear who is squaring off his short positions.

If OI is increasing in an uptrend, it represents aggressive new buying and is a bullish sign. On the contrary, if OI is rising in a downtrend, it represents new short selling and is a bearish sign. Declining OI in an uptrend represents short covering but not fresh buying. Hence, it is a bearish sign. However, declining OI in a downtrend suggests liquidation of losing long positions and is treated as a bullish sign.

Put-call ratio A person who is bearish on the markets buy put options. Similarly, a person who is bullish on the markets buys call options. Put-call ratio (PCR) is arrived at by dividing the total number of puts with the total number of calls.

A high PCR suggests that more number of people are betting for the downward direction of the market; that the majority of market participants are bearish.

A low PCR, on the other hand, reflects the optimism in the market as the bull market.

In practice, PCR acts as the best contrarian indicator as the market moves in opposite direction to what the crowd expects.

Thus, a high PCR is favourable for future market direction. Apart from the above indicators, there are other indicators and oscillators like relative strength index, moving average convergence and divergence, new high and new low index, Herrick Payoff Index, etc which are used in gauging market psyche.

The writer is technical analyst, Darashaw & Co, Mumbai. Views are personal.

stock breakouts

Development Credit Bank: Buy above Rs 22.25, target Rs 23.15, stop loss Rs 21.80. Close above previous high is expected to trigger an upward move.

Galil India: Buy above Rs 251.00, target Rs 261.05, stop loss Rs 246.00. Close above previous high is expected to trigger an upward move.

GVV Power & Infra: Buy above Rs 24.30, target Rs 25.30, stop loss Rs 23.80. Close above previous high is expected to trigger an upward move.

Petron LNG: Buy above Rs 41.40, target Rs 43.05, stop loss Rs 40.50. Close above previous high is expected to trigger an upward move.

Suzlon Energy: Buy above Rs 47.00, target Rs 48.90, stop loss Rs 46.05. Close above previous high is expected to trigger an upward move.

Thermax: Buy above Rs 192.50, target Rs 200.20, stop loss Rs 188.65. Close above previous high is expected to trigger an upward move.

Torrent Power: Buy above Rs 76.60, target Rs 79.65, stop loss Rs 75.00. Close above previous high is expected to trigger an upward move.

Jatin Rathod & Kamal Navanath, Midas Touch Capital Advisors

Disclaimer: DNA takes no responsibility for investors who act on the basis of the above trading tips. The authors may or may not have positions in the above stocks. They advise investors to consult investment experts before actually taking short-term calls.

market clues

STOCKS ON CIRCUIT FILTER

Table with columns: Company, H/L, Price, Circuit, H/L, Price, Circuit. Lists various stocks on circuit filters.

TRENDS

Table with columns: Company, % chng, Company, % chng. Lists trends for various companies.

52-WEEK HIGH/LOW

Table with columns: Company, Price, High, Low, Price, Company, Price. Lists 52-week high and low for various companies.

Capital gains queries

Can the additional carpet area and corpus fund offered by a developer be distributed proportionately among society members as per occupying carpet area or equally among the members irrespective of the carpet area? In my society, I am the only member having a large-

Capital gains queries

er area. So, the distribution of corpus fund and carpet area equally among the members will create a huge notional loss to me. Can I take a legal objection to it? At the same time, I do not want to miss the redevelopment project. Please advise. - Viren Shah

The property rights of the members

Capital gains queries

in a cooperative housing or premises society are to be with reference to the size of the flats owned by the members. Therefore, the additional carpet area and the corpus fund offered by the developer to your society should be distributed in proportion of the size of the respective flats owned by the members. In fact, the term 'corpus fund'

Capital gains queries

a creation of some vested interests and strictly speaking, the same is not a proper term in the context of redevelopment agreement of a cooperative society.

The decision of the majority cannot be an operation on minority and further the decision by the majority cannot override the basic tenets of law.

In my understanding, it will not be a notional loss to you but an actual loss. You can succeed only if you

Capital gains queries

object legally and not otherwise. Your anxiety to go for redevelopment should be appreciated, but the same or higher quantum of anxiety should be there on the other side.

Since you cannot decide for others, you have to decide your own stand and remain firm on it on the ground that if those in the wrong cannot improve, then the ones in the right should be more firm.

The writer is a chartered accountant and can be reached at ghatiarun@rediffmail.com

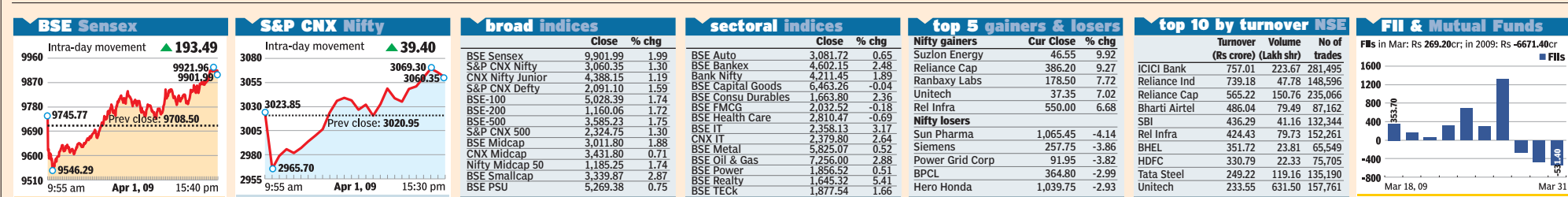


Table of broad indices: BSE Sensex, S&P CNX Nifty, BSE PSU, etc. with Close and % chng.

Table of sectoral indices: Auto, IT, Telecom, etc. with Close and % chng.

Table of top 5 gainers & losers: Suzlon Energy, Reliance Cap, etc. with Close and % chng.

Table of top 10 by turnover: TCS, Infosys, etc. with Turnover, Volume, and No of trades.

Table of FIIL & Mutual Funds: Axis Fund, etc. with FIILs in 2009 and % chng.

Table of NIFTY: ABB, ACC, Ambuja Cements, etc. with LTP, % chng, and Price.

Table of NIFTY: Ashok Leyland, Ashok Fin, etc. with LTP, % chng, and Price.

Table of NIFTY: Adani, Adani Infra, etc. with LTP, % chng, and Price.

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DELIVERY SKIPPED OVER PREVIOUS DAY

Table with columns: Company, Qty, Prev, Chng, Price, % chng, Price, % chng. Lists delivery skipped stocks.

RISING VOLUME, RISING DELIVERY AND RISING PRICE

Table with columns: Company, Traded, Mar 30, 2009, NSE, Traded, Apr 1, 2009, NSE, Traded, Apr 2, 2009, NSE. Lists rising volume stocks.

RISING VOLUME, RISING DELIVERY AND FALLING PRICE

Table with columns: Company, Traded, Mar 30, 2009, NSE, Traded, Apr 1, 2009, NSE, Traded, Apr 2, 2009, NSE. Lists rising volume falling price stocks.

BULK DEALS ON BSE

Table with columns: Scrip name, Client name, Buy, Traded, Price, Sell, Traded, Price. Lists bulk deals on BSE.

BULK DEALS ON NSE

Table with columns: Scrip name, Client name, Buy, Traded, Price, Sell, Traded, Price. Lists bulk deals on NSE.

TRADE FOR TRADE

Table with columns: Scrip name, Client name, Buy, Traded, Price, Sell, Traded, Price. Lists trade for trade deals.

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Disclaimer: DNA takes no responsibility for investors who act on the basis of the above information. Please consult an expert investment advisor before taking short-term calls.

LTTP - Last traded price on NSE % change over previous close